

CALIFORNIA RURAL COUNTIES TASK FORCE

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REVISED AGENDA

MARCH 15, 2002

12:30 pm

Department of Transportation Building
1120 N Street, Room 2116 (Directors Meeting Room)
Sacramento, CA

12:30 pm	A.	Self Introductions	
12:35 pm	B.	Approval of Minutes from January 18, 2002	W. Allen
12:40 pm	C.	2002 STIP Issues a. Respreading of Projects - Recommendations b. Options for Resolving Programming Shortfalls	D. Brewer C. McAdam
1:30 pm	D.	Road Rehabilitation Eligibility in STIP - AB 2275	DeAnn Baker, CSAC P. Dow
2:15 pm		BREAK	
2:30 pm	E.	State Budget Impact to Transportation	All
2:40 pm	F.	Transportation Finance Bank Revolving Loan Program	M. Hariri
3:00 pm	G.	California Transportation Plan	S. Dona
3:15 pm	H.	Rural Counties Task Force Web Board Demonstration	K. Jacobs
3:30 pm	I.	Status Report on RCTF Issues	See attached list
3:45 pm		Adjourn	

DRAFT
California Rural Counties Task Force
January 18, 2002
Meeting Minutes

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To: Rural Counties Task Force Participants

From: Celia McAdam, Chair

SUBJECT: 2002 STIP Issues

- a. Respreading of Projects - Recommendations
- b. Options for Resolving Programming Shortfalls

Issue

State law sets forth the requirements for the programming of the State Transportation Improvement Program (STIP) and adoption by the California Transportation Commission (CTC). Some of these rules have come into play as all the RTIPs have been submitted. Specifically, CTC staff has realized that the year to year programming capacity does not fit with the programming requests of the regional agencies. Under state statute, these must be balanced before the STIP can be adopted.

The problem the CTC, and the regions, face is one of annual program capacity. The Fund Estimate adopted by the CTC estimates the amount of federal and other income it will receive on an annual basis; this directs the amount of program capacity available each year. The issue is that many regions have projects that are ready for construction in the next two years, when program capacity is very low, versus later years when program capacity is higher.

This is not the same thing as cash flow, as programming capacity is based on estimated fund availability, not the actual cash in the bank. In reality, many projects earmarked for funding are delayed, thus building up the balance. This is one of the reasons the CTC allows funding advances.

Discussion

The CTC held a workshop with the regions on February 7, 2002, to discuss the options for dealing with this problem. A summary of the workshop is attached.

The issue can be broken down to two parts; first, how do we get a STIP adopted in accordance to state law and second, how do we resolve the programming dilemma and keep projects moving on schedule?

STIP Adoption: Respreading of Projects

CTC staff has given regions the option of providing recommendations regarding respreading of projects through the five years of the STIP. The thought is, locals know better what the local priorities are, and may be willing to move projects around accordingly. The opportunity was also provided for regions to examine projects that were programmed in the 2000 STIP to make sure the delivery dates were still accurate, and allow for extending those program years.

The bottom line is that the CTC staff will be issuing a staff recommendation for the 2002 STIP that meets the programming requirements, which means projects may be programmed differently than the regions' RTIP submittals. That recommendation is set to be released March 13, 2002. David Brewer of the CTC staff will review these recommendations with the RCTF.

Options for Resolving STIP Shortfalls

The problems of insufficient programming capacity in the early years of the STIP is one that besets urbans and rurals alike. There have been a number of approaches proposed to deal with the programming capacity issue, and allow projects to proceed to construction as planned. This issue was discussed extensively at the February 7, 2002 CTC Workshop.

Therese McMillan of MTC has provided the attached Discussion Points for the 2002 STIP which gives an excellent overview of the pros and cons of various approaches to dealing with the programming issue and keeping projects moving towards delivery.

Discussion Points
2002 State Transportation Improvement Program
(provided by Therese McMillan, Deputy Director, MTC)

Nature of Problem

- Programming: Front-loaded STIP
- Cash Flow issues
- Advances

Options to Address Problems

The CTC should consider the following:

A. Front load programming

- Don't pursue allocation plan proposal—too rigid; could lead to “overreaching” and inability to respond quickly to a recovering economy (happened in 1995)
- Maintain policy of First Come First Serve, to maximize delivery potential. This would permit the Commission to “officially” backload projects, but allow us to bring them forward on demand. See below for new initiatives to accommodate this policy under the revised financial projections facing the State Highway Account.
- Establish new starting line for 2002 STIP. Direct Regions (for RTIP projects) and Caltrans (for ITIP projects) to identify
 - Those projects in the baseline (i.e. 2000 STIP) that can be moved from years 1,2 ,3 and 4 into years 5 and 6, due to anticipated, or acceptable delays
 - Those projects originally requested for years 1,2,3 and 4 in the 2002 RTIP submittals that can be moved in to years 5 and 6;
 - Allow regions “first call” in shifting new RTIP priorities into spaces created within their county shares by shifting out baseline projects.
 - For those projects pushed back to years 5 and 6, identify a “ready shelf” of projects that can move into earlier years, if sufficient capacity exists. To ensure readiness, program project development components as early as possible, leaving construction programmed to outer years.

B. Cash Flow considerations

- The Governor's Budget's proposed loan from State Highway Account (SHA) to Traffic Congestion Relief Fund (TCRF) to General Fund will limit capacity to initiate projects under first come, first serve policy—perhaps as soon as summer 2002, no capacity may exist.
- To mitigate this, consider the following:
 - have the state issue bonds, as Treasurer Angelides has suggested, to move the projects via the State Infrastructure Bank (may need legislative changes to make applicable to this situation).
 - issue GARVEE bonds to move the projects, or
 - let those regions with sales tax programs or bonding capability use AB3090 to move the projects and get repaid when the STIP catches up

Bonding during these economic times could have a big advantage, as interest rates are low. Even so, the differential between construction cost escalation due to deferral, and the interest on the principle will almost always favor pursuing the financing. However, we would need to be very careful to ensure that we have truly deliverable projects—i.e. we can expend financed dollars in three years or less—if we go to the capital markets.

- Ideally, you would be able to issue a bond against a very large pool of eligible federal projects that tap into the SHA—STIP projects, SHOPP projects, Local Assistance. The size of the bond would be only a fraction of the eligible pool, insuring there is sufficient capacity to expend the money. The target amount may be whatever is needed to bolster the cash balance high enough to keep the first come first serve policy operable.
- If we were to consider a more limited, STIP project specific approach, we would probably need to identify the “deliverable” shelf under a very rigorous set of criteria, pool projects from a number of areas to ensure a deep enough shelf, and then only finance a portion, e.g. half the value of that set—that is only 50% of requests could likely be advanced, but we minimize the risk of not having sufficient projects available to expend the financed revenue.

- Because the low cash balance in the SHA contributes directly to the need to defer ready projects (as it constrains the “take ‘em as ready” policy), it would appear equitable to request that, as a minimum, part of the eventual loan package requires that the General Fund pay back the SHA with interest, to address, at least in part, the cost escalations that must be absorbed with deferring ready projects 2-4 years.

C. Advances

- Propose that the regions attempt to redress the advance question by either programming advance requests against reserves within the county shares, or reprogramming priorities to bring them forward.

2002 STIP

It would be preferable for the CTC to program all projects as requested in RTIPs and ITIP, even if that means the 2002 STIP is severely front-loaded, but it is doubtful the CTC will do that, as it probably thinks it does not have statutory authority to do that. So, for reprogramming:

- Ask regions to verify delivery dates for all existing STIP projects, move back any that are delayed or right at the end of a FY, to make some extra room in early years
- Ask regions to respread their projects, existing and new, quickly, only the regions have the information to do that
- Keep all project delivery components on the desired schedule, and move back only construction components, keep delivery rolling

Do NOT do an allocation plan. Either maintain the current policy of vote upon delivery, or ration votes to those projects programmed in the current year and pile the rest on the shelf. The allocation plan of 1994-95 was a failed policy, it led directly to low delivery and the inability to spend new revenues after they subsequently started coming in from Prop 192 and TEA-21.

At some point the State Highway Account balance goes effectively to zero; if we keep voting on demand, that will be sometime this summer, I’d guess, if we ration votes it may come middle of next year or later, depending on delivery.....

At that point, either:

- keep the shelf and wave it in front of Congress during reauthorization, as a reason to increase funding, or
- have the state issue bonds, as Treasurer Angelides has suggested, to move the projects, or
- issue GARVEE bonds to move the projects, or

- let those regions with sales tax programs or bonding capability use AB3090 to move the projects and get repaid when the STIP catches up, or
- use new RSTP and CMAQ funds in fall of 2003 to “loan” to the STIP to move the projects then.

Why do this? Bonds should be cheap now, maybe less than CCI inflation if the projects are delayed. In a recessionary economy, low bids are likely, maybe even use project savings in a special fund to cover bond interest. The economy can use the spending, right now not later. If Angelides is right about the present value of bonding for infrastructure to prime the economy, the only projects useful for that strategy are delivered shelf projects, not new starts or pipeline projects that will arrive 2004 or later. Finally, more delivery in the short term means more groundbreakings and more ribbon cuttings before the election.

This is a temporary situation, at worst four years to 2006 when the General Fund starts to repay the money that is loaned over there. The STIP is a long-term continuing program, no sense to disrupt whatever orderliness it has for a short-term problem that we can clearly see the end of.

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To: Rural Counties Task Force Participants
From: Celia McAdam, Chair
SUBJECT: Road Rehabilitation Eligibility for STIP - AB 2275

Issue

RCTF members have expressed concern about the continued availability of STIP funding for local road rehabilitation projects, particularly in small rural areas. Members have speculated that this issue may come to a head soon, should Proposition 42 pass on the March ballot.

Discussion

To head off potential action to eliminate the use of RTIP funds for local road rehabilitation, Phil Dow from Lake and Mendocino COGs proposed a methodology by which this rehab funding would continue, which the RCTF discussed at our January meeting.

With the assistance of Phil Dow and Dan Landon from Nevada County, Assemblyman Sam Aanestad has now introduced this proposal in AB 2275.

This legislation has generated significant interest, most notably from the California State Association of Counties and the League of California Cities. They have expressed concern that the legislation would unnecessarily concede the continued opportunity for **all** regions to program funds for road rehabilitation.

DeAnn Baker from CSAC will be joining us to provide the counties' position on AB 2275.

ASSEMBLY BILL

No. 2275

Introduced by Assembly Member Aanestad

February 20, 2002

An act to amend Section 14527 of the Government Code, relating to transportation.

LEGISLATIVE COUNSEL'S DIGEST

AB 2275, as introduced, Aanestad. Transportation.

Existing law requires the California Transportation Commission to program interregional and regional transportation capital improvement projects through the State Transportation Improvement Program process, consistent with estimated available funding. Existing law requires regional transportation planning agencies and county transportation commissions to adopt and submit a 5-year regional transportation improvement program to the commission and the Department of Transportation containing certain types of transportation projects, as specified.

This bill would authorize the regional transportation improvement program to include projects for the rehabilitation of local streets and roads in counties meeting certain conditions.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 14527 of the Government Code is
2 amended to read:

1 14527. (a) After consulting with the department, the regional
2 transportation planning agencies and county transportation
3 commissions shall adopt and submit to the commission and the
4 department, not later than December 15, 2001, and December 15
5 of each odd-numbered year thereafter, a five-year regional
6 transportation improvement program in conformance with
7 Section 65082. In counties where a county transportation
8 commission or authority has been created pursuant to Chapter 2
9 (commencing with Section 130050) of Division 12 of the Public
10 Utilities Code, the commission or the authority shall adopt and
11 submit the county transportation improvement program, in
12 conformance with Sections 130303 and 130304 of that code, to the
13 multicounty designated transportation planning agency. Other
14 information, including a program for expenditure of local or
15 federal funds, may be submitted for information purposes with the
16 program, but only at the discretion of the transportation planning
17 agencies or the county transportation commissions.

18 (b) The regional transportation improvement program shall
19 include all projects to be funded with regional improvement funds
20 under paragraph (2) of subdivision (a) of Section 164 of the Streets
21 and Highways Code. The regional programs shall be limited to
22 projects to be funded in whole or in part with regional
23 improvement funds which shall include all projects to receive
24 allocations by the commission during the following five fiscal
25 years. For each project, the total expenditure for each project
26 component and the total amount of commission allocation and the
27 year of allocation shall be stated. The total cost of projects to be
28 funded with regional improvement funds shall not exceed the
29 amount specified in the fund estimate made by the commission
30 pursuant to Section 14525.

31 (c) The regional transportation planning agencies and county
32 transportation commissions may recommend projects to improve
33 state highways with interregional improvement funds pursuant to
34 subdivision (b) of Section 164 of the Streets and Highways Code.
35 The recommendations shall be separate and distinct from the
36 regional transportation program. A project recommended for
37 funding pursuant to this subdivision shall constitute a usable
38 segment and shall not be a condition for inclusion of other projects
39 in the regional transportation improvement program.



1 (d) Major projects shall include current costs updated as of
2 November 1 of the year of submittal and escalated to the
3 appropriate year, and shall be consistent with, and provide the
4 information required in, subdivision (b) of Section 14529.

5 (e) The regional transportation improvement program may not
6 change the project delivery milestone date of any project as shown
7 in the prior adopted state transportation improvement program
8 without the consent of the department or other agency responsible
9 for the project's delivery.

10 (f) Projects may not be included in the regional transportation
11 improvement program without a complete project study report or,
12 for a project that is not on a state highway, a project study report
13 equivalent or major investment study.

14 (g) The transportation planning agencies and county
15 transportation commissions may request and receive an amount
16 not to exceed 1 percent of their regional improvement fund
17 expenditures for the purposes of project planning, programming,
18 and monitoring. A transportation planning agency or county
19 transportation commission not receiving federal metropolitan
20 planning funds may request and receive an amount not to exceed
21 5 percent of its regional improvement fund expenditures for the
22 purposes of project planning, programming, and monitoring.

23 (h) *The regional transportation improvement program may*
24 *include projects for the rehabilitation of local streets and roads to*
25 *be funded with regional improvement funds in any county that*
26 *meets any of the following criteria:*

27 (1) *Any county that has a population of less than 50,000.*

28 (2) *Any county that has no project study reports for state*
29 *highway projects available in order to allow programming of state*
30 *highway projects at the time the regional transportation*
31 *improvement program is due to be adopted.*

32 (3) *Any county, regardless of its population, but only with*
33 *respect to that amount of revenue that is projected in the fund*
34 *estimate adopted by the California Transportation Commission*
35 *pursuant to Section 14525 and which is to be added to the county*
36 *share that results from funds generated from the sales tax on*
37 *gasoline made available to the county by the approval of the voters*
38 *of Proposition 42 on the March 3, 2002, statewide ballot.*

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To: Rural Counties Task Force Participants
From: Celia McAdam, Chair
SUBJECT: State Budget Impact to Transportation

Issue

The California State Budget for FY 2002/03 has projected shortfalls of up to \$14 billion. The Governor's Budget includes various proposals for dealing with the shortfall, and there have been concerns about how that may impact transportation.

Discussion

The Legislative Analyst's Office (LAO) has released an analysis of the Governor's Budget as it affects transportation, including recommendations for action.

MAJOR ISSUES

Transportation



Additional Transportation Funds Available to Loan to General Fund

- The budget proposes to loan \$672 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund, and to shift other transportation funds in order to prevent a shortfall in TCRF. We find that TCRF expenditures will likely be lower than projected. We recommend budget bill language to (1) allow a larger TCRF transfer to the General Fund if necessary, and (2) limit the transfer of State Highway Account (SHA) funds to TCRF (see page A-15).



SHA Balance Likely To Be Much Higher Than Projected

- The budget projects a 2002-03 SHA cash balance of \$84 million, due in part to a large increase in projected capital outlay expenditures. However, over the past seven years, the Department of Transportation (Caltrans) has consistently overestimated capital outlay expenditures. We find it unlikely that capital outlay expenditures will grow at the projected rate, and therefore the SHA balance could be hundreds of millions of dollars higher than the budget projects (see page A-17 and A-43).



Public Transportation Account (PTA) Shortfall Can Be Avoided

- Lower gasoline prices and declining diesel fuel sales have combined to substantially reduce projected PTA revenues. A recent tax regulation would further reduce revenues and cause a shortfall in the account in 2002-03. We recommend that a planned loan of \$100 million from PTA to the TCRF be

reduced in order to avoid the projected shortfall (see page A-22 through A-25).



Ongoing Funding for Stormwater Management Needs Justification

- The budget requests \$23.4 million for Caltrans to manage stormwater runoff. We find that several aspects of the proposal are either not adequately justified or do not have workload estimates to justify ongoing funding at this time. We recommend deletion of \$838,000. We further recommend that \$13.5 million of the request be granted on a one-time basis until Caltrans can provide better workload justification (see page A-47).



New Funding System Needed For Ongoing Security Programs

- Increased costs for security activities will result in a Motor Vehicle Account (MVA) shortfall in the budget year unless corrective actions are taken. We find the MVA is not appropriate as the sole fund source for ongoing protective services. We recommend a new system for funding ongoing security costs that combines MVA with General Fund and reimbursements (see page A-26 through A-31).



Antiterrorism Programs Not Fully Developed

- The administration expects to receive \$350 million in federal funds for antiterrorism security activities, but the budget allocates only \$164 million for specific security measures. We withhold recommendation on \$89.6 million requested for the California Highway Patrol until the levels of federal reimbursement are better known in the spring. We also recommend development of an expenditure plan that sets priorities for the use of the remaining \$176 million in anticipated additional federal funds (see page A-32 through A-39).

CROSSCUTTING ISSUES

Transportation

CONDITION OF TRANSPORTATION FUNDS

California's state transportation programs are funded by a variety of sources, including special funds, federal funds, and general obligation bonds for transportation. Two special funds—the State Highway Account (SHA) and the Public Transportation Account (PTA)—have traditionally provided the majority of ongoing state revenues for transportation. Additionally, in 2000, the Legislature enacted the Traffic Congestion Relief Program (TCRP), which created a six-year funding plan for state and local transportation needs, later extended to eight years by Chapter 113, Statutes of 2001 (AB 438, Committee on Budget). The program is funded by two fund sources—the Traffic Congestion Relief Fund (TCRF) and the Transportation Investment Fund (TIF)—from a combination of General Fund revenues (one-time) and ongoing revenues from the sales tax on gasoline beginning in 2003-04.

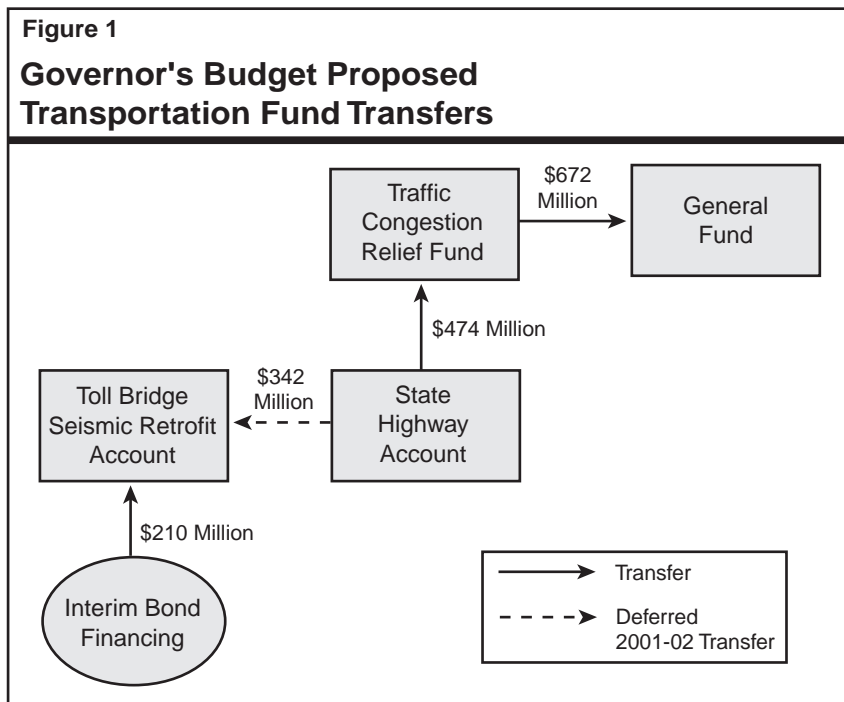
In this section, we first discuss the budget proposal to loan TCRF money to the General Fund and the impact the proposal would have on transportation funds. We then discuss the status of funding for toll bridge seismic retrofit. Finally, we review the condition of the PTA.

TRANSPORTATION LOAN PROPOSAL

Substantial Transportation Funds to Be Loaned to the General Fund

The budget proposes loaning \$672 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund. The budget proposes shifting other transportation funds in order to prevent a fund shortfall in TCRF.

The TCRF to Loan Money to General Fund, Backfilled by SHA. The budget proposes to loan \$672 million from TCRF to the General Fund. This amount is in addition to the \$238 million transferred in the current year. In order that the proposed loan would not negatively affect the delivery of transportation projects in 2002-03, the Governor's budget proposes a number of transportation funding shifts, as detailed in Figure 1. As Figure 1 shows, the budget proposes to backfill most of the TCRF loan with a transfer of \$474 million from SHA.



The SHA Contribution to Toll Bridge Seismic Retrofit to Be Deferred. The SHA is the state's main fund source for highway maintenance and construction. Current law also requires SHA to provide a total of at least \$745 million for the seismic retrofit of state-owned toll bridges. The Department of Transportation (Caltrans) estimates that a total of \$795 million would be transferred for this purpose, and the current-year budget approved a transfer of \$342 million to meet part of that requirement. In order to accommodate the SHA loan to TCRF, the budget proposes not to make this current-year transfer to the Toll Bridge Seismic Retrofit Account (TBSRA). Caltrans indicates that it now intends to delay the transfer of SHA funds to TBSRA as long as possible to ensure that SHA's cash-flow needs are met.

Toll Bridge Seismic Retrofit Shortfall to Be Filled With Loan. Seismic retrofit of state-owned toll bridges is funded with a combination of state and federal funds as well as toll revenues. Without the SHA transfer in the current year, the budget projects that there would not be sufficient funds in 2002-03 to cover projected toll bridge seismic retrofit expenditures. To pay for these expenditures, the budget proposes \$210 million in “interim financing” in the budget year, involving a short-term loan to be repaid by a later bond issuance authorized by Chapter 907, Statutes of 2001 (AB 1171, Dutra). The bonds in turn will be repaid by toll revenues.

Caltrans will certainly have to issue these bonds in future years to meet its cash-flow needs for toll bridge seismic retrofit. However, the interim financing proposed for 2002-03 would not be necessary if the SHA transfer to TBSRA in the current year were made as originally enacted.

Balance of TCRF Likely Higher; SHA Loan Needed May Be Smaller

We believe the budget overestimates current-year and budget-year expenditures from the Traffic Congestion Relief Fund (TCRF), and therefore a large loan from the State Highway Account (SHA) will likely not be required. We recommend adoption of budget bill language limiting the transfer from SHA to TCRF. We further recommend adoption of budget bill language to provide increased flexibility in the transfer of TCRF money to the General Fund.

Under the TCRP, the General Fund provided TCRF \$1.6 billion in 2000-01 to fund 141 designated transportation projects. These projects were to receive additional General Fund transfers of \$678 million annually for five years, beginning in 2001-02.

Funding for TCRP Deferred in Current Year. In enacting the current-year budget, the Legislature and Governor approved a loan of \$238 million from TCRF to the General Fund in order to address a shortfall in the General Fund. Additionally, Chapter 113 deferred the first \$678 million transfer until 2003-04. In order to ensure that the cash-flow needs of TCRP projects are met, Chapter 113 authorizes the Department of Finance to make loans to TCRF from various transportation funds, including:

- An interest-free loan of up to \$100 million from the Motor Vehicle Account to be repaid no later than June 30, 2007.
- Loans of up to \$280 million from PTA.
- Loans of up to \$180 million from SHA.

The PTA and SHA loans will be repaid no later than June 30, 2008 and June 30, 2007, respectively.

Budget-Year Loan to Be Repaid in Three Years. The Governor's budget now proposes to loan \$672 million from TCRF to the General Fund in the budget year. According to Caltrans, these loans are to be repaid over three years, beginning in 2003-04. Figure 2 shows when all the loans authorized by Chapter 113 and proposed in the budget are to be made and repaid.

Figure 2
Traffic Congestion Relief Fund
Loans and Repayments^a

(In Millions)

Year	General Fund	State Highway Account	Public Transportation Account	Motor Vehicle Account
2000-01	—	\$60	—	—
2001-02	-\$238	60	\$180	—
2002-03	-672	534	100	—
2003-04	300	-50	—	—
2004-05	574	-149	—	\$100
2005-06	336	-275	—	—
2006-07	-195	-180	—	-100
2007-08	-106	—	-280	—

^a Positive numbers indicate funds payable to TCRF; negative numbers indicate funds payable from TCRF to specified fund.

Actual TCRF Balance Likely to Be Higher Than Projected. Based on our review of the department's cash-flow needs for TCRP projects, the additional loan to the General Fund proposed in the budget will most likely not have an adverse impact on project delivery. This is because TCRF expenditures in all likelihood will be lower than projected. In fact, we believe TCRF expenditures by the end of the budget year could be about \$300 million lower than the budget projects, allowing a larger TCRF loan to the General Fund, if needed. As an indication of the likelihood of lower TCRF expenditures, consider recent experience. In January 2001, Caltrans estimated that TCRF expenditures would total \$1.1 billion by the end of the current year. Caltrans has now revised that amount downward to \$665 million. Our review further shows that less than \$200 million has been expended to date leaving, we believe, an estimated TCRF balance of about \$1.4 billion.

Based on the expenditure experience to date as well as Caltrans' historical overestimation of SHA expenditures (discussed later), we believe

that expenditures on TCRF projects in 2002-03 could be substantially lower than projected, leaving a much higher than projected cash balance in TCRF. As a consequence, it is likely that part of the proposed \$474 million loan from SHA would not be needed. Accordingly, we recommend that the following budget bill language be adopted limiting the transfer from SHA to only what is needed for cash-flow purposes, up to the amount proposed. This will provide Caltrans with maximum flexibility and not commit it to needless transfers.

Item 2660-013-0042. The amount to be transferred to the Traffic Congestion Relief Fund is limited to an amount needed for cash-flow purposes, up to the amount specified in the item.

Similarly, to provide the Legislature with the flexibility to transfer more from TCRF to the General Fund if necessary, we recommend that budget bill language under Item 2660-011-3007 be adopted to allow the Department of Finance, with adequate notification to the Legislature, to transfer more than \$672 million if TCRF expenditures are lower than projected.

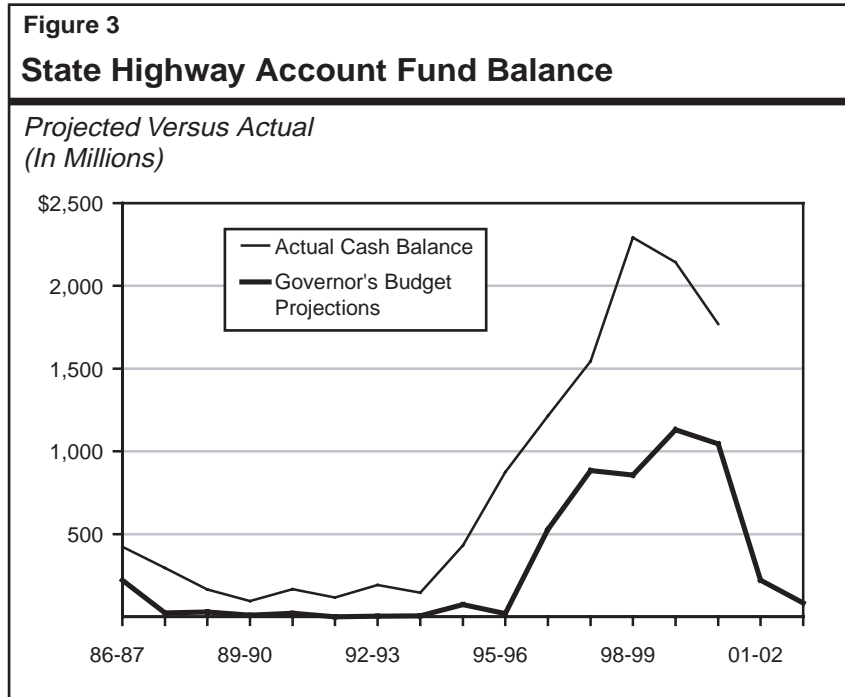
The Director of Finance may authorize the transfer of an amount exceeding the \$672 million provided by this item if the Director determines both that (1) the General Fund condition necessitates such a transfer and (2) expenditures from the Traffic Congestion Relief Fund are lower than originally expected and the additional transfer will not negatively affect cash-flow needs of transportation projects. Any additional transfer may be authorized not sooner than 30 days after notification in writing of the necessity therefor to the Chair of the Joint Legislative Budget Committee and the chairs of the committees of both houses that consider the state budget and that consider appropriations. The total amount transferred by this item shall not exceed \$1 billion.

Expenditure Projection for SHA Is Optimistic; Fund Balance Likely to Remain Much Higher

With the use of the State Highway Account (SHA) to backfill the Traffic Congestion Relief Fund, the budget projects an SHA cash balance of only \$84 million at the end of the budget year. Based on past expenditure trends, we find it unlikely that the balance will fall to this level.

Substantial Balance in SHA; Actual Cash Balance Consistently Higher Than Projected. Our review shows that for the past two decades, the department has consistently underestimated the SHA cash balance. In fact, the SHA has maintained a substantial cash balance of more than \$1 billion since 1996-97. Figure 3 (see next page) compares the actual cash balances in SHA to the levels projected. As Figure 3 shows, actual balances have been above projected levels since 1986-87, and the SHA cash

balance has risen dramatically since 1993-94. In 1998-99, the balance reached a record high of \$2.3 billion—\$1.4 billion more than projected. Likewise, for the current year, Caltrans now estimates a balance of \$1.3 billion, more than \$1 billion higher than the \$222 million originally projected in January 2001.



Higher Cash Balances Due to Optimistic Projection of Expenditures.

One of the primary reasons for the higher than projected SHA fund balance is the consistent overestimate of capital outlay expenditures. For example, 1999-00 SHA capital outlay expenditures were projected at \$683 million, but actual expenditures were only \$405 million. In fact, for the six years from 1995-96 through 2000-01, actual SHA capital outlay expenditures were on average \$323 million less per year than projected. There are a number of reasons for these large differences, one of which is Caltrans' difficulty in delivering projects as quickly as it projects it can, as described in more detail later in this chapter (Item 2660).

Projected Large Drop in SHA Cash Balance Unlikely. The Governor's budget again projects that the SHA cash balance will fall dramatically, from \$1.8 billion at the end of 2000-01 to \$558 million by the end of 2002-03, not including the proposed loan to the TCRF. (With the transfer, the SHA

balance will drop to \$84 million as shown in Figure 3.) This decline in cash balance assumes a significant increase in capital outlay expenditures to \$915 million in 2002-03. The projected expenditure level represents an increase of 63 percent over the estimated level in 2001-02 and 149 percent above actual expenditures in 2000-01.

Given Caltrans' past overestimates of expenditures, we do not believe that actual capital outlay expenditures will grow this rapidly. Consequently, the SHA fund balance could be hundreds of millions of dollars higher at the end of 2002-03.

TOLL BRIDGE SEISMIC RETROFIT

Funding Augmented, But Potential for Further Cost Overruns Remains

In 2001, Caltrans revealed that projected costs for seismic retrofit of state-owned toll bridges had substantially increased. The Legislature responded by providing additional funding for toll bridge seismic retrofit, including coverage for potential future cost overruns. Despite the increased funding, seismic retrofit costs could still exceed the overrun coverage in future years.

Since 1993, the state has been retrofitting all state-owned toll bridges for seismic safety. In 1997, Caltrans estimated total costs of the retrofit program at \$2.6 billion, including \$1.3 billion to replace the east span of the San Francisco-Oakland Bay Bridge. All retrofit work was scheduled to be completed by 2004. The \$2.6 billion costs were to be funded with a \$1 toll surcharge on the state's Bay Area toll bridges, general obligation bonds, and a combination of SHA and PTA funds.

Toll Bridge Seismic Retrofit Costs Have Greatly Increased. In 2001, Caltrans revealed that toll bridge seismic retrofit schedules had slipped and total costs would increase by 77 percent, from \$2.6 billion to \$4.6 billion. Projected costs for the largest component of the program, replacement of the east span of the Bay Bridge, more than doubled from \$1.3 billion to \$2.6 billion. Figure 4 shows Caltrans' revised cost estimates.

New Funding Provided by AB 1171. In response to the significantly higher cost estimates, the Legislature enacted Chapter 907, Statutes of 2001 (AB 1171, Dutra), which provided additional funding of up to \$2.5 billion from several sources:

- *An Additional \$1.4 Billion From Toll Revenues.* Assembly Bill 1171 repealed the 2008 sunset date for the \$1 toll surcharge on the state's Bay Area toll bridges. Instead, the surcharge will be ex-

Figure 4
Toll Bridge Seismic Retrofit Cost Increases

(Dollars in Millions)

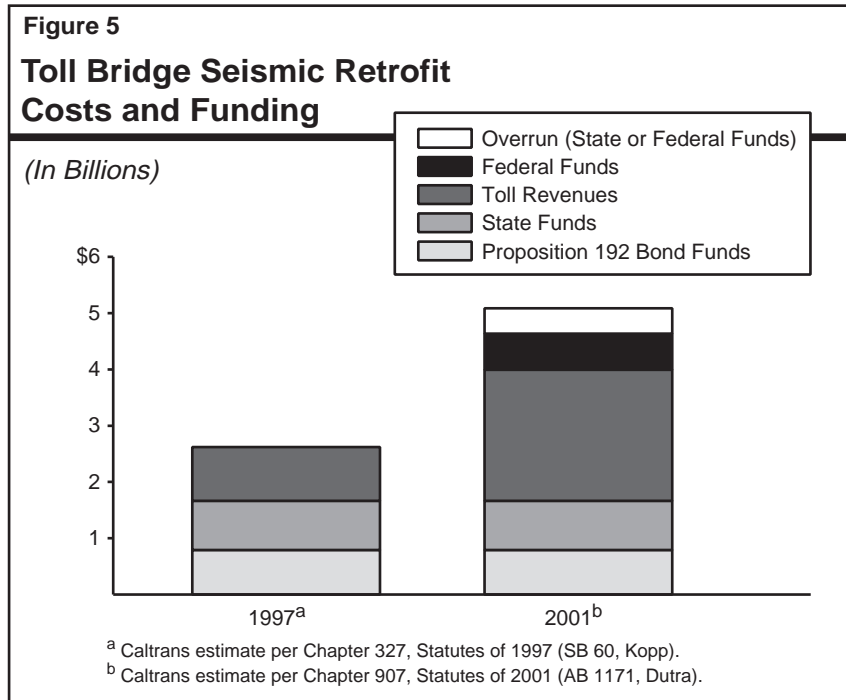
Bridge	Cost Projection		Percent Increase
	1997 Estimate	2001 Estimate	
San Francisco-Oakland Bay			
New east span	\$1,285	\$2,600	102%
West span	553	700	27
Richmond-San Rafael	329	665	102
San Mateo-Hayward	127	190	50
Benicia-Martinez	101	190	88
Carquinez—eastbound	83	125	51
San Diego-Coronado	95	105	11
Vincent Thomas	45	62	38
Totals	\$2,618	\$4,637	77%

tended for up to 30 additional years. This surcharge is now expected to provide a total of \$2.3 billion, almost half of the entire projected seismic retrofit cost.

- **\$642 Million in Federal Funds.** Part of the federal funds the state receives annually for highway bridge rehabilitation and replacement will be used for toll bridge seismic retrofit, with the first expenditure of these funds occurring in the budget year.
- **\$448 Million Overrun Coverage by State or Federal Funds.** Recognizing that Caltrans' projected costs could still be low, AB 1171 gave Caltrans the authority to cover any costs over \$4.6 billion with up to \$448 million from the State Transportation Improvement Program (STIP), the State Highway Operation Protection Plan (SHOPP), or federal bridge funds. If Caltrans uses this authority, it would reduce the number of other projects it can deliver with the selected funding source(s). Caltrans has complete discretion as to which of the three sources would supply this funding.
- **Bond Issuance to Cover Cash-Flow Needs.** Because annual toll revenue from state bridges will be much lower than the cash-flow needed to meet retrofit schedules, AB 1171 allows Caltrans to issue bonds that will be repaid by future toll revenues. The

\$210 million “interim financing” proposed in the Governor’s budget is a short-term loan that would be repaid by these bonds.

Figure 5 compares the funding of toll bridge seismic retrofit under AB 1171 to the funding previously provided in 1997.



First Contract for Bay Bridge East Span Over Budget. In January 2002, Caltrans awarded the first of four contracts for the replacement of the east span of the Bay Bridge. The lowest bid was \$1 billion, over \$200 million more than Caltrans’ estimate. Despite the significantly higher cost of this contract, Caltrans currently projects it will not need the overrun authority provided by AB 1171. Previous experience with Caltrans’ toll bridge seismic retrofit expenditure projections suggests that this projection is optimistic. While bids for the remaining contracts have not yet been received, it appears likely that, at a minimum, Caltrans will have to use part of its overrun authority. If future bids also come in substantially higher than expected, or there are cost overruns on the other toll bridges, Caltrans may have to obtain additional money from the Legislature in future years.

PUBLIC TRANSPORTATION ACCOUNT (PTA)

Budget Projects Substantially Less PTA Funds

As a result of a combination of factors, the budget projects substantially less Public Transportation Account funds to be available in the current and budget years than originally anticipated.

The PTA was established by the Transportation Development Act of 1971, to provide a source of state funds primarily for transit (including bus and rail) purposes. Historically, the three largest expenditures from the PTA have been for the State Transit Assistance (STA) program, intercity rail services, and transit capital improvements. Under current law, the STA program receives at least 50 percent of annual PTA revenues. The remaining PTA funds support various other public transportation purposes, including intercity rail service, capital improvements of transit systems, rail and mass transportation planning and support, and high-speed rail development.

Sales Taxes on Diesel and Gasoline Generate Most PTA Revenue. The two main sources of revenue into PTA are sales and use taxes on diesel fuel and gasoline. The largest source is a 4.75 percent sales tax on diesel fuel. The second major source is a 4.75 percent sales tax on 9 cents of the state excise tax on gasoline. In addition, PTA receives any “excess revenue” generated from a 4.75 percent sales tax on all taxable goods, including gasoline, as compared to a 5 percent rate on all taxable goods, excluding gasoline. This mechanism, known as “spillover,” holds the General Fund harmless, but provides additional revenues to PTA. For 2002-03, the budget projects that these sales tax revenues to PTA will total \$231 million.

Figure 6 shows resource and expenditure estimates for the PTA for the current and budget years. Our review shows that due to a combination of factors, PTA revenues for the current and budget years are substantially lower than originally anticipated.

Available PTA Funds Substantially Reduced With TCRP Refinancing. As we discussed earlier, the 2001-02 budget refinanced the TCRP in order to free up money for the General Fund. The refinancing plan substantially reduced total available PTA funds in the current and budget years. Specifically, under the refinancing plan, the PTA loaned \$180 million to TCRF in the current year, and will loan \$100 million in the budget year. These loans are scheduled to be repaid in 2007-08. In addition, the refinancing plan also deferred the transfer of an estimated \$177 million in gasoline sales tax revenues to PTA over the current and budget years.

Figure 6		
Public Transportation Account		
Fund Condition^a		
<i>(In Millions)</i>		
Resources	2001-02	2002-03
Beginning reserve	\$259	\$81
Fuel sales tax revenues	237	231
Loans to TCRF	-180	-100
Transfers from SHA	109	86
Other	4	3
Totals	\$429	\$300
Expenditures		
STA	\$171	\$115
Local assistance	42	3
Intercity rail		
Existing service	69	73
New service	10	0
Capital improvements	1	25
Support and other	56	58
Totals	\$349	\$274
Balance	\$81	\$26
^a Totals may not add due to rounding.		

Lower Gasoline Prices and Drop in Diesel Fuel Sales Reduce PTA Funds Further. As Figure 6 shows, the Governor's budget estimates sales tax revenues from diesel fuel and gasoline to PTA to be \$237 million for the current year. This is substantially lower than originally anticipated due to two factors. First, lower gasoline prices in 2001 have significantly reduced the spillover to PTA for the current year. Caltrans originally projected the amount to be \$80.4 million. It now estimates the amount to be \$12.7 million. Second, because of the economic slowdown, diesel fuel sales have declined. Caltrans estimates current-year diesel fuel sales tax revenues to total \$161.3 million, a difference of \$12.7 million.

For the budget year, Caltrans projects no spillover and diesel fuel sales tax revenues to be \$167 million.

Tax Regulation to Reduce PTA Revenues Further; Account Faces Shortfall

While the budget projects a balance of about \$26 million for the Public Transportation Account (PTA) at the end of the budget year, the account could in fact face a shortfall of about \$24 million due to additional revenue losses resulting from recently adopted tax regulations. We recommend that the planned loan of \$100 million from PTA to the Traffic Congestion Relief Fund be reduced accordingly in order to avert a PTA shortfall.

Chapter 156, Statutes of 2001 (AB 426, Cardoza), exempts from sales taxes diesel fuel used in farming activities and food processing, including the delivery of farm products to the marketplace. The exemption had been estimated to reduce annual PTA revenues by \$6 million. However, in January 2002, the Board of Equalization adopted regulations to implement Chapter 156 that expanded the exemption significantly to include more types of farm equipment and activities. Caltrans estimates that the regulations would result in an additional revenue loss to PTA of as much as \$50 million per year.

As Figure 6 shows, the budget projected a PTA balance of \$26 million at the end of 2002-03. The budget, however, has not anticipated the impact of the regulations on PTA revenues. The additional revenue loss resulting from the regulations would result in a PTA shortfall of \$24 million.

The budget proposes total PTA expenditures of \$274 million in 2002-03, including \$115 million for the STA program. The STA amount meets the statutory requirement that 50 percent of PTA revenues be allocated to the program. The remaining proposed expenditures are mainly for the support and capital improvement of intercity rail service, and for the support of Caltrans' Mass Transportation program.

Options to Avert PTA Shortfall. The Legislature has several options to avoid a fund shortfall in 2002-03. These include:

- Reduce STA funding to less than the amount called for under current law.
- Eliminate budget-year expenditures on capital improvements for intercity rail service. The budget proposes \$25 million in capital expenditures mainly for track improvements. Eliminating these expenditures, however, would delay future expansion of intercity rail services.
- Fund track improvements for intercity rail service out of SHA instead.

- Reduce the amount of the loan to TCRF below the planned \$100 million in 2002-03.
- A combination of the above options.

Loan to TCRF Should Be Reduced. The TCRP refinancing plan called for a \$100 million PTA loan in 2002-03 in order to meet the cash-flow needs of TCRP projects. However, as we discussed in an earlier section, based on expenditure experience to date, TCRP expenditures are likely to be much lower than projected. Consequently, a full \$100 million will likely not be needed.

Accordingly, we recommend that the planned PTA loan be reduced by at least \$24 million in order to avoid a PTA shortfall. This would provide adequate funds for all PTA expenditures proposed for 2002-03.

The PTA Faces Funding Pressure Until 2007-08

The combination of loans to the Traffic Congestion Relief Fund, deferral of transfers from gasoline sales tax revenues into the Public Transportation Account (PTA), and expanded diesel sales tax exemptions will likely place pressure on the PTA for the next few years.

The original TCRP provided substantially more funds for PTA programs. In the *2001-02 Analysis*, we projected a total of \$261 million in uncommitted funds in PTA over the four years from 2002-03 through 2005-06. However, as a result of the TCRP refinancing, unexpected changes in the economy, and new tax exemptions, there will very likely be no uncommitted funds available for programming of capital improvements for the next four to five years, until the loans to TCRF are repaid in 2007-08.



DEPARTMENTAL ISSUES

Transportation

DEPARTMENT OF TRANSPORTATION (2660)

The Department of Transportation (Caltrans) is responsible for planning, coordinating, and implementing the development and operation of the state's transportation systems. These responsibilities are carried out in five programs. Three programs—Highway Transportation, Mass Transportation, and Aeronautics—concentrate on specific transportation modes. Transportation Planning seeks to improve the planning for all travel modes and Administration encompasses management of the department.

The budget proposes expenditures of \$9 billion by Caltrans in 2002-03. This is about \$1.2 billion, or 15 percent, more than estimated current-year expenditures. This is largely due to a significant projected increase in capital improvements on state highways.

HIGHWAY TRANSPORTATION

Budget Proposes Major Increase in Highway Program Expenditures

The budget proposes expenditures of \$7.5 billion for the highway transportation program, about \$1.2 billion, or 19 percent, more than estimated current-year expenditures. This includes a 65 percent increase in proposed capital outlay expenditures.

The major responsibilities of the highway program are to design, construct, maintain, and operate state highways. In addition, the highway

program provides local assistance funds and technical support for local roads. For 2002-03, the budget proposes \$7.5 billion for the highway transportation program, approximately 83 percent of the department's proposed budget. This is an increase of \$1.2 billion, or 19 percent, over estimated current-year expenditures. This is due to a sizable increase in projected expenditures for capital outlay, as discussed below.

Of the \$7.5 billion, the budget proposes \$3.3 billion in capital outlay expenditures, an increase of 65 percent above estimated 2001-02 levels. This increase is primarily due to estimated expenditures for projects to be delivered in the five-year State Transportation Improvement Program (STIP). Although this proposed increase is large, it is misleading. This is because Caltrans has historically overestimated its capital outlay expenditures for the budget year when submitting its budget proposals, as described in the following section.

As shown in Figure 1, Caltrans expects that state funds would support about \$3.7 billion (50 percent) of highway program expenditures in the budget year. Federal funds would fund about \$3.4 billion (46 percent) of the program, while the remaining \$307 million (4 percent) would be paid through reimbursements, primarily from local governments.

Figure 1
Department of Transportation
Highway Transportation Budget Summary

(Dollars in Millions)

Program Elements	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Percent Change From 2001-02
Capital outlay support	\$1,052	\$1,306	\$1,307	0.1%
Capital outlay projects	3,024	2,004	3,313	65.3
Local assistance	1,590	1,809	1,740	-3.8
Program development	72	94	76	-18.4
Legal	87	64	64	0.9
Operations	200	164	146	-11.3
Maintenance	803	822	810	-1.5
Totals	\$6,828	\$6,263	\$7,457	19.1%
<i>State funds</i>	<i>\$3,112</i>	<i>\$3,186</i>	<i>\$3,730</i>	<i>17.1%</i>
<i>Federal funds</i>	<i>3,338</i>	<i>2,719</i>	<i>3,420</i>	<i>25.8</i>
<i>Reimbursements</i>	<i>378</i>	<i>357</i>	<i>307</i>	<i>-14.0</i>

Low Capital Outlay Expenditures Signal Project Delay

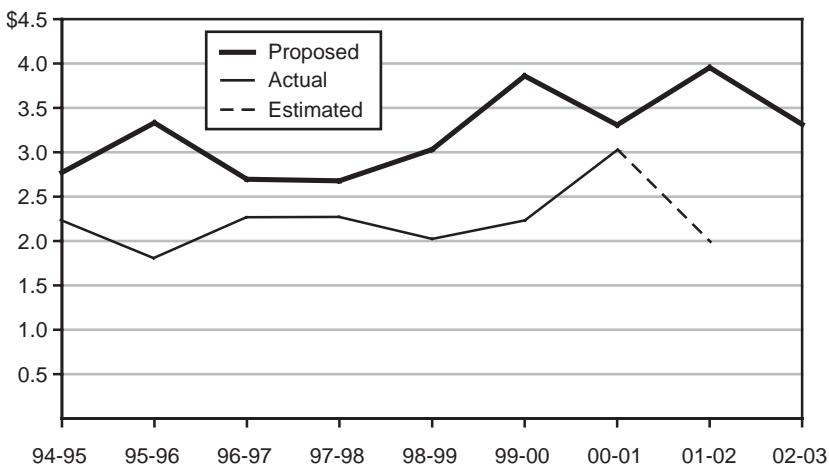
While the budget projects a large increase in highway capital outlay expenditures, past experience suggests that this projection is overstated. In fact, actual capital outlay expenditures averaged 75 percent of projected capital outlay expenditures over the past seven years. Most of the discrepancy appears to lie in the fact that Caltrans' projections assume that projects will proceed on schedule, while in reality large capital projects are often delayed.

Actual Capital Outlay Expenditures Below Projections. As noted above, the budget projects that Caltrans' highway capital outlay expenditures will grow from \$2 billion in 2001-02 to \$3.3 billion in 2002-03, a 65 percent increase. However, over the past seven years, Caltrans has consistently projected capital outlay expenditures above its actual expenditures. In fact, actual capital outlay expenditures averaged 75 percent of projected capital outlay expenditures from 1994-95 through 2000-01. On average, this is \$826 million per year lower than projected. The difference has fluctuated widely, ranging from \$1.6 billion below the projected amount in 1999-00 to a seven-year low of \$285 million below projected in 2000-01, as illustrated in Figure 2.

Figure 2

Highway Capital Outlay Expenditures Proposed Versus Actual

(In Billions)



Capital Outlay Expenditure Projection Likely Too Optimistic. Discussions with Caltrans indicate that a primary reason for this large difference between projected and actual expenditures is that Caltrans' projections assume that projects will proceed according to project schedules at the time the budget is prepared. However, in reality capital outlay projects are often delayed.

Because Caltrans' projections are based on ideal schedules and past experience reveals large differences between projected and actual capital outlay expenditures, we believe that the budget's projected 65 percent increase in capital outlay expenditures is overstated.

Capital Outlay Support Request Will Be Amended

We withhold recommendation on \$1.3 billion requested for capital outlay support staff because staffing needs will be revised during the May Revision when more accurate information on workload for the State Transportation Improvement Program will be available.

Withhold Recommendation on Capital Outlay Support. The budget proposes \$1.3 billion to fund capital outlay support, a 0.1 percent increase from current-year estimated expenditures. However, the department indicates that it will provide new estimates in the spring as part of the May Revision. By that time, the department will have more accurate estimates regarding the amount of project development work that will be performed during 2002-03. Pending receipt of new workload estimates, we withhold recommendation on the department's capital outlay support request.

Information Technology Integration Plan Has Merit; Funding for Projects Is Premature

We recommend that \$75 million in State Highway Account funds requested for four information technology projects be rejected because the scopes, costs, and time frames for the projects will not be finalized until after the budget year (August 2003). (Reduce Item 2660-002-0042 by \$75 million).

The budget proposes \$77.4 million in one-time State Highway Account funds for various information technology (IT) projects. Specifically, the budget requests \$2.4 million to contract for the development of an IT Enterprise Integration Plan with the following components:

- A department-wide ("enterprise") IT strategic plan.
- A plan to implement four specific enterprise projects, as described below.

- A plan to integrate the four projects.
- A reestimation of the scopes, costs, and time-lines of the four projects.

Another \$75 million is requested to develop and implement four department-wide IT projects over three years. These include:

- A financial management system.
- A construction management system.
- A land management system.
- A contract payment system.

Information Technology Enterprise Integration Plan Warranted. In the *Analysis of the 2001-02 Budget Bill*, we reviewed the organizational and fiscal structure of IT at Caltrans. We found that IT implementation in the department is fragmented and lacks standardization and coordination. (Please see pages A-55 through A-69 of the *2001-02 Analysis*.) As such, we think that an integration plan as proposed would be useful to avoid any gaps and lack of coordination among the four areas that the department is proposing to implement. Accordingly, we recommend approval of the \$2.4 million requested for the integration plan.

Funding for Individual Projects Premature. Discussions with the administration indicate that the integration plan must be completed before beginning the four proposed department-wide projects. This is because the integration plan could result in changes in the scopes, costs, and time-lines for the projects. The administration anticipates the plan will be completed in August 2003. Because the final scopes, costs, and time-lines for the four department-wide projects would not be known for another 18 months and the projects would not begin until 2003-04, funding in 2002-03 is premature. Accordingly, we recommend that the \$75 million request for the automation projects be rejected.

Stormwater Management Cost Not All Justified

The budget requests \$23.4 million and 167.5 personnel-years for stormwater management activities. We recommend the deletion of \$838,000 because (1) training of contractors should be reimbursed and (2) the department did not provide any workload justification for \$600,000 of the request. (Reduce Item 2660-007-0042 by \$838,000 and increase reimbursement by \$238,000.)

The federal Clean Water Act requires that the discharge of pollutants into waters of the United States from any point source comply with a National Pollutant Discharge Elimination System (NPDES) permit. Pol-

lutant discharges from Caltrans facilities include various metals, petroleum products, pesticides, and general litter. In July 1999, Caltrans received a statewide NPDES permit from the State Water Resources Control Board (SWRCB) for stormwater discharges from the state highway system and any other Caltrans facilities. Prior to the statewide permit, Caltrans had nine regional permits that governed activities in its 12 districts. In order to comply with the statewide permit, Caltrans is required to annually submit a statewide plan for implementation. The SWRCB approved Caltrans' current Stormwater Management Plan (SWMP) in May 2001.

Budget Proposes \$23 Million in New Funding. In order to comply with requirements of the SWMP, the budget proposes an augmentation of \$23.4 million in the budget year (\$22.4 million ongoing) and 167.5 personnel-years. This augmentation would increase Caltrans' annual level of effort on prevention and cleanup of stormwater pollution from \$62 million and 168 personnel-years to \$85 million and 336 personnel-years. The proposal covers several types of activities, as indicated in Figure 3.

Figure 3	
New Stormwater Management Funding	
<i>(In Millions)</i>	
Program	2002-03 Request
Capital Outlay Support	
Training, reporting, compliance reviews	\$9.3
Legal	
Legal defense, permit compliance	0.6
Traffic Operations	
Encroachment permit review	0.9
Maintenance	
Mitigation activities	12.6
Total	\$23.4

Our review shows that overall the department needs additional resources to carry out its stormwater management responsibilities. However, as we discuss here and in the following section, we believe that part of the request is not adequately justified and other aspects require further review before the actual funding and staffing levels required are known.

Contractors Should Pay for State-Provided Training. Caltrans proposes to spend \$238,000 per year to instruct construction contractors on their stormwater pollution-prevention responsibilities. Caltrans must perform this activity to be in compliance with the SWMP. However, we believe that the private firms receiving this training would benefit economically by knowing what stormwater management activities contractors are required to perform in the course of constructing highway facilities. As such, we think that they should compensate Caltrans for the cost of developing and delivering the training. Therefore, we recommend that \$238,000 requested for this purpose be funded from reimbursements.

Some Activities Not Adequately Justified. Caltrans proposes to spend \$600,000 per year to review leases of highway rights-of-way ("airspace") to make sure these leases do not worsen stormwater pollution. Caltrans indicated that these activities are required by the SWMP. Our review however, shows that the SWMP requires only a one-time review of all airspace leases, to be completed by January 1, 2002. It does not call for an annual review of all such leases. Furthermore, the department indicated that the review has indeed been completed. Thus, the requested amount will not be needed for 2002-03.

Ongoing Stormwater Management Costs Need Workload Justification

We recommend the adoption of budget bill language directing the Department of Finance to report to the Legislature on the results of its review of Caltrans' stormwater management activities. Additionally, we recommend the adoption of budget bill language to provide \$13.5 million and 154 personnel-years from Caltrans' budget-year request for various stormwater management activities on a one-time (rather than permanent) basis and to direct Caltrans to justify future requests based on the budget-year workload.

Finance Should Advise the Legislature of Review Findings. Of the \$23.4 million requested for stormwater management activities, \$250,000 is designated to reimburse the Department of Finance for an annual review. The review is intended to help the administration and the Legislature better evaluate the long-term cost implications of Caltrans' compliance with the Clean Water Act. In order to ensure that the review findings are shared with the Legislature, we recommend the following budget bill language in Item 2660-007-0042:

Of the funds appropriated in this item, \$250,000 shall be used by the Department of Transportation to enter into an interagency agreement with the Department of Finance for an implementation review of the Department of Transportation's stormwater management practices. The

Department of Finance shall provide a preliminary report of its findings to the Legislature by January 10, 2003 and a final report by July 1, 2003.

Level of Ongoing Funding Needs Further Review. Caltrans will have to implement various procedures to comply with its current SWMP. Some of the procedural changes will affect highway maintenance practices and therefore mitigation workload activities. However, Caltrans is at the current time uncertain as to the exact amount of workload or funding that will be required to implement these procedures. Thus, it is not able to provide workload justifications for \$850,000 requested for project-specific treatment controls and \$12.6 million requested for its highway maintenance program.

Without a better workload basis, we think that the requested amounts should not be approved as ongoing expenditures. Rather, the department should be required to justify these funds in future years based on workload experience. Therefore, we recommend that \$13.5 million and 154 personnel years requested for maintenance activities and project-specific treatment controls be funded as one-time expenditures, for 2002-03 only. Furthermore, we recommend the adoption of budget bill language that directs Caltrans to provide workload justification for any 2003-04 funding request for these purposes, as follows:

Item 2660-007-0042. Of the amount appropriated in this item, \$13,478,000 is provided for 2002-03 on a one-time basis. To the extent these expenditures are proposed in 2003-04, the Department of Transportation shall provide justification for the expenditures based on workload experience for 2002-03. Such justification shall be provided no later than January 10, 2003 as part of the Governor's budget proposal.

Fleet Greening Proposal Too Ambitious

We recommend a reduction of \$1 million requested for certain emission reduction strategies for Caltrans' vehicles because the costs of these actions outweigh the benefits. We further recommend budget bill language requiring the reversion of any unexpended funds proposed for diesel retrofit because it is uncertain that the proposed strategy would be verified by the Air Resources Board in time for it to be used. (Reduce Item 2660-031-0042 by \$1,036,000.)

The budget proposes one-time expenditure of \$10 million to reduce pollutant emissions in Caltrans' vehicles (referred to as "fleet greening"). This is the second year of Caltrans' fleet greening effort. In the current year, the Legislature provided \$20 million to perform similar activities.

Costs of Some Proposed Actions Outweigh the Benefits. Two actions Caltrans proposes in order to reduce emissions are the use of liquefied

petroleum gas (LPG) equipment in place of certain diesel equipment at a total cost of \$150,000 and the purchase of hybrid gas/electric passenger cars instead of gasoline-powered cars at a cost of \$886,000. While each of these actions would reduce pollutant emissions from these sources, our review shows that the costs of these actions outweigh the measurable benefits. Specifically, Caltrans estimates that buying certain LPG equipment instead of diesel would cost \$3,000 more per vehicle, but the value of the emissions reduction over the life of each vehicle would be less than \$400. Similarly, purchasing hybrid cars instead of the standard gasoline models would cost an extra \$5,500 per vehicle, but the estimated value of the emissions reduction and lower fuel costs over the life of the vehicle would be about \$2,300. We do not believe the state should pursue strategies that are not cost-effective. Therefore, we recommend that the Legislature deny \$1 million for these purchases.

Diesel Retrofit Money Cannot Yet Be Expended. Of the current-year funding for fleet greening, Caltrans planned to use \$11 million to retrofit diesel engines to reduce emissions of oxides of nitrogen (NOx). However, the Air Resources Board (ARB) has not yet verified and approved the technology the department planned to use as a viable NOx emission-reduction strategy, and Caltrans has therefore not been able to implement this portion of its fleet greening initiative. As of January 2002, the department has spent \$8.4 million on other actions to reduce vehicle emissions. It now plans to revert the funds it cannot expend.

The budget proposes providing \$5.5 million in the budget year for diesel engine retrofit and for staff overtime to oversee the retrofit work. At the time this analysis was prepared, ARB estimated that the verification of the proposed technology is unlikely to occur before early 2003. If the verification does not occur before the end of the budget year, Caltrans will again be unable to begin retrofitting diesel engines. To ensure that the proposed funds are not redirected to other purposes, we recommend the following budget bill language in Item 2660-031-0042:

Any portion of the \$5,494,000 appropriated in this item for diesel engine retrofit and staff overtime that is unexpended for the approved emission reduction purposes at the end of the fiscal year shall revert to the fund from which it was appropriated.

Encroachment Permit Fees Do Not Cover Costs

The fees Caltrans charges private companies for issuing encroachment permits cover only about two-thirds of the cost of the program. We recommend the enactment of legislation to require that the fees charged to private companies for encroachment permits cover the total cost of issuance.

Staff Augmentation Warranted by Workload Increase. Caltrans issues encroachment permits to governmental agencies and private companies for construction and nontransportation activities within the state highway system's right-of-way. Two years ago, the Legislature approved an increase of 34.5 personnel-years for two years to handle an increase in encroachment permitting workload. This augmentation was justified by a 22 percent increase in permitting workload from 1994-95 to 2000-01. Caltrans now projects that this increase in workload will be permanent rather than temporary, and therefore requests that the staff increase be made permanent. Our review of the workload data shows that the request is warranted.

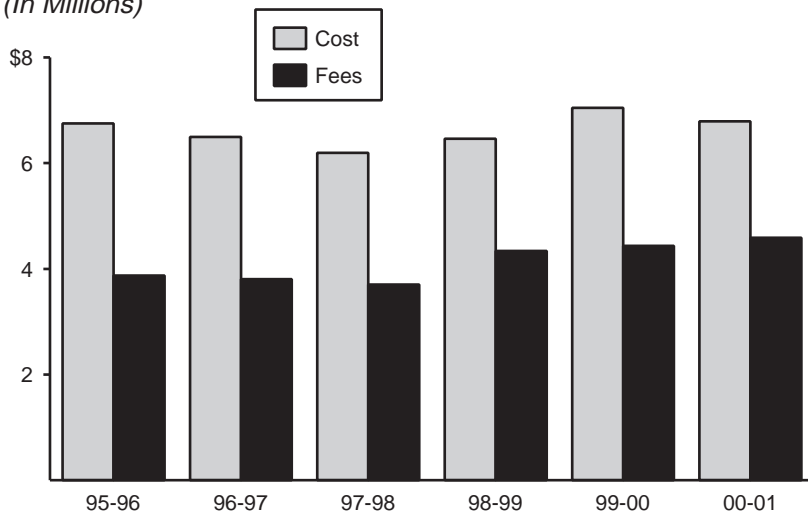
Fees Charged Do Not Cover Expenses. While state law forbids Caltrans from charging fees for encroachment permits granted to government agencies, it does allow the department to charge private companies for these permits, provided the total fees collected do not exceed the cost of reviewing permit applications from private companies. While Caltrans does charge private companies a fee for this service, our review shows that the total fees collected cover only about two-thirds of the cost of reviewing private-company permit applications. In fact, from 1995-96 through 2000-01, the average annual cost of issuing permits to private companies has been \$6.6 million, but the fees collected have averaged only \$4.1 million per year, as indicated in Figure 4. Over these six years, the state has provided \$15 million worth of this service to private companies free of charge.

Caltrans indicates that the reason for this discrepancy is that the department charges companies only for the time they spend reviewing permit applications and overseeing the permitted activities, along with related overhead, but not for other costs associated with reviewing permits, such as some travel costs and answering inquiries from private companies.

We believe that fees charged for a service provided by the state should cover the costs of that service. Therefore, we recommend the enactment of legislation directing the department to charge encroachment permitting fees to private companies that cover but do not exceed the total cost of providing this service.

PROJECT DELIVERY

Project delivery is arguably the most critical variable in Caltrans' mission to improve mobility. Because of concerns over project delays, the Legislature requires our office to report on the department's progress in delivering projects as they are scheduled for construction in the STIP and the State Highway Operation and Protection Program (SHOPP).

Figure 4**Encroachment Permits to Private Companies
Costs Versus Fees Charged***(In Millions)*

In the following section, we discuss a number of key issues related to project delivery, including STIP and SHOPP delivery in the 2000-01 year, project delivery for the seismic retrofit program, environmental review of STIP and SHOPP projects, and Caltrans' use of contractors.

Caltrans Project Delivery Mixed

In 2000-01, Caltrans delivered 97 percent of programmed State Transportation Improvement Program (STIP) projects, and almost 100 percent of programmed expenditures. However, in terms of the sheer number of STIP projects delivered, it dropped 62 percent from the previous year due to extensive rescheduling of projects by Caltrans prior to 2000-01. Additionally, the department delivered 94 percent of programmed State Highway Operation and Protection Program (SHOPP) projects, equivalent to 91 percent of programmed expenditures. Local agencies delivered 83 percent of programmed STIP projects and expenditures.

In the *Analysis of the 2001-02 Budget Bill*, we adopted the California Transportation Commission's (CTC's) definition of project delivery. This definition compares the number of projects that were allocated funding by CTC to the number of projects programmed in the STIP or SHOPP for delivery in that year. (Please see page A-37 of the *2001-02 Analysis*.)

Figure 5 summarizes the number of projects Caltrans delivered (“allocated funding”) compared to the number programmed in the STIP and SHOPP. Figure 6 shows delivery in terms of dollar volume.

Figure 5			
Caltrans Project Delivery by Number of Projects			
<i>2000-01</i>			
Program	Projects		Percent Delivered^a
	Programmed	Delivered	
STIP ^b	39	38	97%
SHOPP ^c	257	242	94
Totals	296	280	95%
^a Excludes expenditures for advanced projects. ^b State Transportation Improvement Program. ^c State Highway Operation and Protection Program.			

Figure 6			
Caltrans Project Delivery by Expenditure			
<i>2000-01</i> <i>(Dollars in Millions)</i>			
Program	Expenditures		Percent Delivered^a
	Programmed	Delivered	
STIP ^b	\$215	\$215	100%
SHOPP ^c	1,212	1,107	91
Totals	\$1,427	\$1,322	93%
^a Excludes expenditures for advanced projects. ^b State Transportation Improvement Program. ^c State Highway Operation and Protection Program.			

Caltrans Delivered 97 Percent of STIP Projects Programmed for 2000-01, But Many Fewer Than Previous Year. According to information provided by CTC, in 2000-01 Caltrans delivered 97 percent of STIP projects

that were programmed for delivery in that year, as shown in Figure 5. These are projects that primarily expand highway capacity. In terms of expenditures (Figure 6), the department delivered \$215 million, the same level as was programmed for delivery in 2000-01.

While the percentages noted above are commendable, the number of projects delivered in 2000-01 was far less than the number delivered in the previous year. In fact, the 38 delivered projects in 2000-01 represent a 62 percent drop from the 101 projects delivered in 1999-00. Likewise, the dollar value of delivered projects dropped 66 percent from \$636 million to \$215 million. Our review shows that Caltrans was able to deliver close to all of its commitment because in 1999-00 it rescheduled a record number of STIP projects to be delivered in later years. Specifically, \$788 million worth of projects were rescheduled, \$646 million of which was for projects originally programmed to be delivered in 2000-01. As a result, the delivery goal for 2000-01 shrank significantly. This practice has continued in the current year. Specifically, Caltrans rescheduled \$611 million worth of projects at the end of 2000-01, again reducing its STIP project delivery goal.

The SHOPP Project Delivery Remains Strong. With respect to SHOPP projects, the department delivered 242 projects, or 94 percent of the projects that were programmed for delivery. The SHOPP projects provide safety, operation, or rehabilitation improvements to the state highway system. In terms of funding allocations, the department delivered \$1.1 billion, or 91 percent of the amount in programmed funds. In general, SHOPP projects are far less complicated from a design standpoint and require less extensive environmental review. This makes them, in general, easier to deliver on schedule than STIP projects.

Department Delivered Some Projects Programmed for Different Years. Figures 5 and 6 only show delivery of projects programmed for 2000-01. They do not include the delivery of projects scheduled for delivery in other years. In 2000-01, the department delivered three projects ahead of schedule and four projects that had originally been programmed for delivery in 1999-00. With these projects, STIP delivery in 2000-01 totaled \$244 million. With respect to SHOPP projects, the department delivered seven projects that were advanced from future years and no projects from prior years.

We support the department's practice of advancing projects ahead of schedule when possible. However, we do not include these projects in our main calculations because the Legislature's primary concern has been how well Caltrans meets its *intended* delivery schedule, which more closely reflects its original priority of projects. Likewise, including delivery of delayed projects would not provide a true representation of Caltrans' project delivery.

Local Agencies Deliver 83 Percent of Programmed Expenditures. Under Chapter 622, Statutes of 1997 (SB 45, Kopp), local agencies are responsible for determining how to spend 75 percent of STIP funds. To the extent that local agencies decide to spend their share of STIP funds on highway capacity improvements, they have traditionally depended on Caltrans to deliver the projects. However, to the extent that they choose to spend their share of funds on transit projects or local road improvements, *they* are responsible for that delivery.

In 2000-01, local agencies delivered 569, or 83 percent, of the local street and road or mass transit projects programmed in the STIP for delivery during 2000-01. These projects totaled \$450 million. Like Caltrans, however, local agencies also delivered a significant amount of projects that were scheduled for different years. Specifically, local agencies delivered 170 projects from future and prior years, totaling \$65 million. These additional projects bring total delivery by local agencies to \$515 million.

Local Agencies Continue Strong Expenditure of Federal Funds. While their STIP project delivery did not match the percentages achieved by Caltrans, local agencies' expenditure of federal funds which they receive directly has improved significantly. In the first two years of the 1997 federal transportation act, the Transportation Equity Act for the 21st Century, local agencies underspent their allotment of federal funds by 41 percent and 57 percent, respectively. As a result, by October 1999, local agencies had accumulated \$1.2 billion in unexpended federal allocations. In 1999-00, however, local agencies markedly increased their expenditure of federal funds, obligating \$1.2 billion, or 154 percent of their share of federal funds. In 2000-01, local agencies obligated \$1.1 billion, or 124 percent of their share of federal funds. As a result, the amount of unexpended federal funds has been reduced to about \$600 million. This is a big improvement toward lowering the backlog to a reasonable level of between \$100 million and \$200 million.

Seismic Retrofit of Toll Bridges Delayed; Retrofit of Other Bridges Almost Complete

Phase 1 of the highway bridge seismic retrofit program is complete. Phase 2 is 98 percent complete, but work will not be completed on some bridges until 2008. Seismic retrofit of the state-owned toll bridges has been delayed.

Caltrans inspects all state and local bridges at least once every two years. Since 1971, when the Sylmar earthquake struck the Los Angeles area, Caltrans has had an ongoing bridge retrofit program. The retrofit program involves a variety of different improvements, depending on the

needs of the particular structure. The improvements include strengthening the columns of existing bridges by encircling certain columns with a steel casing, adding pilings to better anchor the footings to the ground, and enlarging the size of the hinges that connect sections of bridge decks to prevent them from separating during an earthquake.

Following the 1994 Northridge earthquake, Caltrans expanded its seismic retrofit program for state highway bridges, creating a Phase 1 and a Phase 2 program. Phase 1 included 1,039 bridges identified for strengthening after the 1989 Loma Prieta earthquake at a total cost of \$800 million, as shown in Figure 7. These projects were completed by May 2000. Phase 2 consists of an additional 1,155 bridges that were identified for strengthening following the Northridge earthquake. To date, Caltrans has completed the work on 1,133 (98 percent) of the Phase 2 bridges and estimates Phase 2 construction costs to be \$1 billion. However, Caltrans estimates some Phase 2 projects will not be completed until 2008 due to more complex retrofit and replacement work on a number of these bridges.

Figure 7
Highway Seismic Retrofit Program
Scope and Progress

As of January 2002
(Dollars in Millions)

	Number of Bridges	
	Phase 1	Phase 2
Retrofit construction complete	1,039	1,133
Under contract for construction	—	4
Design not complete	—	18
Totals	1,039	1,155
Estimated construction cost	\$844	\$1,000
Construction complete target	2000	2008

Schedule Continues to Slip for Toll Bridge Retrofit. Caltrans is also retrofitting seven of the state's toll bridges for seismic safety, as shown in Figure 8 (see next page). As Figure 8 indicates, the scheduled completion dates for the retrofit of several bridges are now much later than Caltrans' original projections. (For the estimated costs of this retrofit work, please see the "Condition of Transportation Funds" in the "Crosscutting Issues" section of this chapter.)

Figure 8
Toll Bridge Seismic Retrofit Schedule Delays

Bridge	Completion Date		Approximate Delay In Years
	Original	Revised	
San Francisco-Oakland Bay			
New east span	Winter 2004	Spring 2007	3.0
West span	Fall 2003	Summer 2008	5.0
Benicia-Martinez	Summer 1999	Winter 2002	2.5
Carquinez—eastbound	Winter 1999	Winter 2002	3.0
Richmond-San Rafael	Fall 2000	Spring 2005	4.5
San Diego-Coronado	Fall 1999	Winter 2002	2.0
San Mateo-Hayward	Fall 1999	Fall 2000	1.0
Vincent Thomas	Winter 1999	Spring 2000	1.0

Caltrans indicates that the delays in the retrofit work are due to numerous factors, and each bridge's delays are unique. For example, the east span of the Bay Bridge has been delayed more than three years from its original projected completion date. Caltrans indicates that this delay is due partly to the United States Navy's initial refusal to grant an encroachment permit to allow Caltrans to drill on Yerba Buena Island and partly to Caltrans' inability to release the bid for the first contract on the east span until a federal loan was approved.

The west span of the Bay Bridge, on the other hand, has been delayed almost five years from its original completion date, which Caltrans indicates is due in part to safety issues with the ongoing work on the bridge. As a further example, the Richmond-San Rafael Bridge was delayed four and a half years according to Caltrans because the department redesigned the retrofit schedule to reduce the potential for legal claims and to reduce the scope of work in environmentally sensitive locations during certain seasons. Because many of the factors causing delays are unanticipated, it is thus likely that Caltrans could encounter more delays as projects progress.

Completion of STIP Environmental Documents Has Improved, But SHOPP Completion Rate Has Declined

Caltrans has taken several steps to streamline its environmental review process. In 2000-01, Caltrans improved the completion of scheduled

State Transportation Improvement Program environmental documents. However, the completion rate for State Highway Operation and Protection Program environmental documents decreased sharply from the previous year.

One of the factors contributing to delays in project delivery is the cumbersome environmental review process. In recent years, the department has worked with state and federal agencies in an attempt to streamline the process.

Some Environmental Streamlining Actions Have Been Taken, But Much Work Remains. In July 2001, Caltrans made a formal proposal to the United States Department of Transportation (U.S. DOT) suggesting actions that both Caltrans and U.S. DOT could take to streamline environmental review. These suggestions included, among other things:

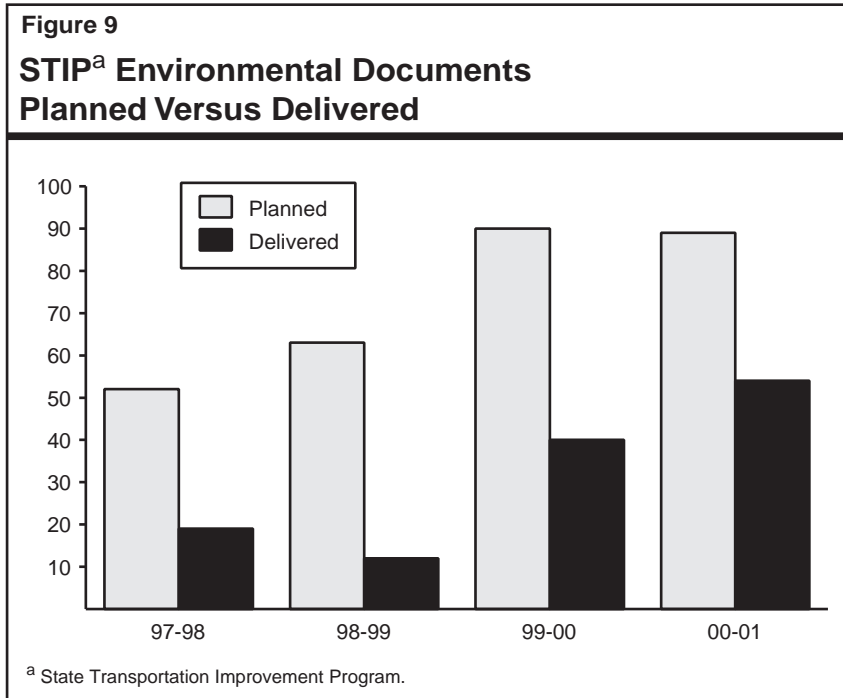
- Setting specific deadlines for Federal Highway Administration (FHWA) review of environmental documents.
- Expanding Caltrans' ability to coordinate directly with federal resource agencies as an agent of FHWA.
- Developing a formal tracking system for movement of environmental work products among Caltrans and federal agencies.
- Establishing a Caltrans environmental document quality assurance program to ensure that documents meet a minimum quality level before they are submitted to FHWA for review.

The U.S. DOT responded favorably to Caltrans' proposal and committed to work with Caltrans and federal resource agencies to further develop these recommendations and implement them once they were finalized. Caltrans indicates that work is currently progressing on several of the proposals, but it does not have a projected date as to when they will be finalized and implemented.

In addition to these streamlining efforts, beginning in 1999-00, Caltrans received funding for 22 positions at state and federal resource agencies to help expedite environmental review of Caltrans projects. As of January 2002, all but seven of these positions were filled.

Sixty-One Percent of STIP Environmental Documents Completed. Our review of the number of environmental documents completed for STIP projects last year reveals some improvement. Of 89 environmental documents the department planned to complete during 2000-01 (including some that were originally scheduled for prior years), 54 were completed. The remaining 35 rolled forward to 2001-02 and beyond. This completion rate (61 percent) represents an improvement over previous years, as indi-

cated in Figure 9. However, much work remains to be done to streamline delivery of environmental documents.



Environmental Document Delivery for SHOPP Projects Falls. While STIP environmental document delivery in 2000-01 improved over the previous year, delivery of environmental documents for SHOPP projects worsened. Specifically, Caltrans delivered 101 of 150 planned SHOPP environmental documents, for a 67 percent delivery rate. By comparison, the department was much more successful in 1999-00, delivering 190 SHOPP environmental documents compared to its planned delivery of 164 documents. Caltrans managed to exceed its goal in that year by advancing several documents that were originally scheduled to be completed in future years.

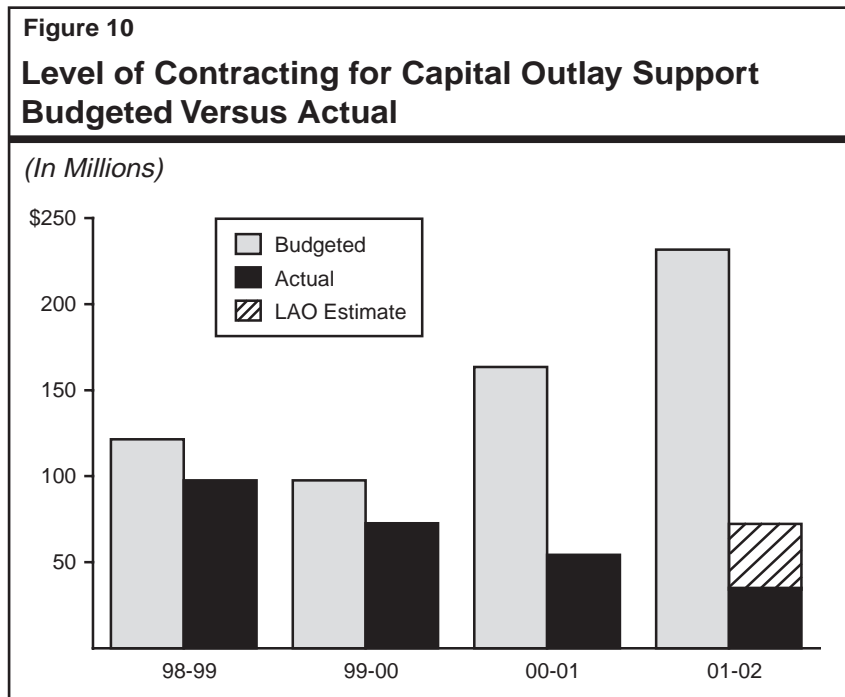
Limited Use of Private Contracting for Project Delivery; Funds Redirected to Other Uses

Although Caltrans projected large increases in contracting in 2000-01, the level of contracting for engineering work fell far short of the amount budgeted. A substantial part of the funds not expended for contracting

was redirected to other purposes. We recommend amending budget bill language to direct the department to revert all funds not used for private contracting.

Caltrans uses private consultants on an ongoing basis to perform various aspects of project development and design work for which Caltrans has limited or no expertise, such as in the area of hydraulics and seismic retrofit of certain structures. Proposition 35, passed by the voters in November 2000, broadened Caltrans' ability to contract out for architectural and engineering services under certain circumstances.

Level of Contracting Substantially Lower Than Budgeted. Following the passage of Proposition 35, Caltrans projected a large increase in its level of contracting for capital outlay support work. As illustrated in Figure 10, for 2000-01, Caltrans' engineering contract budget was \$163 million, a 68 percent increase over the previous year. However, our review shows that actual contracting expenditures for that year were significantly lower—only \$54 million. Likewise, \$232 million was budgeted for contracting in the current year, but Caltrans has expended only \$35 million through December 2001. Based on this level of expenditure, we estimate that Caltrans will spend only about \$70 million on contracting by the end of the current year.



Contracting Does Provide Flexibility. Caltrans indicates that the largest single factor accounting for the \$109 million difference between its budgeted and actual level of expenditures on contracting in 2000-01 was an overestimate of the amount of Traffic Congestion Relief Program (TCRP)-related work the department would be called upon to perform. Thus, budgeting this activity as contract work rather than using state staff gave Caltrans the flexibility to not expend funds on support for projects it could not yet begin.

Some Money Used for Other Purposes. While Caltrans did not spend the funds on contracting, it did not revert all of them either. In fact, of the \$109 million not spent on private contracting in 2000-01, Caltrans reverted only \$77 million. The remaining \$32 million was redirected to cover other Caltrans costs. We believe that Caltrans' ability to redirect substantial amounts of funds not used for contracting reduces the Legislature's ability to hold Caltrans accountable for the use of funds approved in the budget.

Recommend Budget Language to Limit Caltrans Ability to Redirect Funds. The proposed budget bill includes language that requires Caltrans to revert funds budgeted for architectural and engineering contracts that are encumbered but unexpended at the end of 2002-03. To provide greater accountability, we recommend that this language in Item 2660-001-0042 be revised to direct Caltrans to revert *all* unexpended contracting money:

The funds appropriated in Schedule (2) for specialty consultant contract resources and for architectural and engineering consultant contract resources for capital outlay support that are unencumbered for that purpose or that are encumbered for such contracts but unexpended at the end of the fiscal year shall revert to the fund from which they were appropriated.

INTERCITY RAIL PROGRAM

The intercity rail program was established to provide motorists traveling long distances with a safe, efficient, and cost-effective transportation alternative to the automobile. Currently, the state supports and funds intercity rail passenger services on three corridors—the Pacific Surfliner (formerly the San Diegan) in Southern California, the San Joaquin in the Central Valley, and the Capitol in Northern California. All train routes are supplemented and integrated by a dedicated feeder bus service.

The Capitol service is administered by the Capitol Corridor Joint Powers Authority (CCJPA), which started on July 1, 1998, following the enactment of the Intercity Passenger Rail Act of 1996 (Chapter 263, Statutes of 1996 [SB 457, Kelley]). Caltrans administers service on the remaining two

rail corridors. In addition to providing for the operation of service, Caltrans and CCJPA also plan for the capital improvements needed to upgrade the respective corridors to provide expanded service. Both Caltrans and CCJPA contract with Amtrak for the operation and maintenance of the intercity rail service.

Budget Requests No New Service and No Increase in Baseline Funding. For 2002-03, the budget requests \$73.1 million for Amtrak to provide intercity rail service. The request includes \$23.6 million for the Capitol Corridor, \$28.5 million for the San Joaquin, and \$21 million for the Pacific Surfliner. These are the same amounts as budgeted for 2001-02. In addition, Caltrans will spend \$24.9 million for track improvements. These expenditures are funded from a \$91 million appropriation in the current-year budget.

Caltrans' state rail plan published in October 2001 calls for service expansions on two of the three intercity rail lines (the Capitol and the Pacific Surfliner) in 2002-03, but the department is not proposing funding for new train service at this time due to a decline in projected revenues in the Public Transportation Account. (Please see the "Condition of Transportation Funds" in the "Crosscutting Issues" section for a discussion of the account condition.) The department indicates that it will re-evaluate its revenue projections and may revisit this issue this spring.

Costs for Existing Intercity Rail Service Will Be Updated

We withhold recommendation on \$73.1 million requested to support existing intercity rail service because the amount needed will likely be different from current estimates. Specifically, more current cost estimates will be forthcoming from Amtrak in March 2002. We recommend that the department provide the updated cost estimates at budget hearings. Based on that information, the Legislature should adjust the amount of support for intercity rail services accordingly.

The budget requests \$73.1 million to support Amtrak's costs for continuation of intercity rail services in 2002-03. The budget request is based on cost estimates provided by Amtrak in 2001. We understand that Amtrak will provide Caltrans with updated estimates in March 2002. Accordingly, we withhold recommendation on \$73.1 million for intercity rail services. We further recommend that Caltrans provide the updated cost estimates at budget hearings and that the Legislature adjust the proposed appropriation based on the updated information.

CALIFORNIA RURAL COUNTIES TASK FORCE

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To: Rural Counties Task Force Participants
From: Celia McAdam, Chair
SUBJECT: Transportation Finance Bank Revolving Loan Program

Issue

California's Transportation Finance Bank Revolving Loan Program was set up to provide flexible, short term loans with below market interest rates to public entities to accelerate project delivery. \$3 million has been provided by the Federal Department of Transportation to fund this program for California.

Discussion

Caltrans has now developed guidelines and an application package for the Revolving Loan Program, which are attached.

Because only \$3 million is available statewide, it is felt that this program is best suited for rural counties. Mark Hariri of Caltrans will present the program and guidelines.

Some attributes of the program are of particular note in considering if this program will work for your county:

- Minimum loan amount is \$500,000
- Project must be federalized
- Payback is through pledge of future RTIP dollars
- Loan application fee is 1/2 of 1% (or \$5,000 per \$1m)
- Interest rate is 1 point below 3-month Treasury Bill Average
- Loans are granted on first-come, first-served basis

One of the reason the program has had limited interest up until now is that even small rural counties could advance projects in the STIP for no loan fee or interest. However, with the current state of affairs with programming capacity in the STIP, counties may be able to keep programmed projects on schedule via this loan program, with repayment when the programmed STIP funds come available.

State of California
Business, Transportation & Housing Agency
Department of Transportation

Prepared by:
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POLICY MATTERS
TFB Revolving Loan Program
Guidelines, Application and
Agreement Package
Informational Item

CTC Meeting: February 28, 2002

Reference No.: 4.7

Original Signed by _____
ROBERT L. GARCIA
Chief Financial Officer
February 1, 2002

TRANSPORTATION FINANCE BANK
REVOLVING LOAN PROGRAM GUIDELINES, APPLICATION
AND AGREEMENT PACKAGE

BACKGROUND

The Transportation Finance Bank (TFB) Revolving Loan Program is being established as a State Infrastructure Bank, authorized under the National Highway System Designation Act of 1995 and the California Government Code Section 64000 added by Chapter 664 of the Statutes of 1998 (SB 567, Schiff). The program offers flexible, short-term loans with below-market interest rates to public entities and public/private partnerships for the purpose of accelerating the delivery of transportation projects in California.

Under the TFB Revolving Loan Program, the Department of Transportation (Department) is responsible for accepting and evaluating applications; making loan recommendations to the California Transportation Commission (Commission); and, acting as the contact source for information on the program. The Commission makes decisions regarding loan approvals and provides program oversight.

The Department may develop and maintain additional internal administrative procedures necessary to carry out the legislative intent of this program, and the Commission may revise the guidelines and loan documents, including the application, as deemed necessary.

DISCUSSION

The TFB Revolving Loan Program Guidelines and Loan Application and Agreement package are being presented for notice at the February 28, 2002, Commission meeting. The adoption of the TFB Revolving Loan Program Guidelines and Loan Application and Agreement package will provide public entities and public/private partnerships with a financing alternative for accelerating the delivery of their transportation projects. Additionally, as the implementation of the program advances, it may be necessary to amend and revise the guidelines to administer the TFB Revolving Loan Program.

RECOMMENDATION

The Department recommends that the Commission adopt the TFB Revolving Loan Program Guidelines and Loan Application and Agreement package enclosed herein at the April 3-4, 2002 Commission Meeting.

ATTACHMENTS

DRAFT

TRANSPORTATION FINANCE BANK

REVOLVING LOAN PROGRAM GUIDELINES

AND

LOAN APPLICATION AND AGREEMENT PACKAGE

DRAFT
TRANSPORTATION FINANCE BANK
REVOLVING LOAN PROGRAM GUIDELINES

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**CALIFORNIA TRANSPORTATION COMMISSION
CALIFORNIA DEPARTMENT OF TRANSPORTATION**

**DRAFT
GUIDELINES FOR THE
TRANSPORTATION FINANCE BANK
REVOLVING LOAN PROGRAM**

1. INTRODUCTION

The Transportation Finance Bank (TFB) Revolving Loan Program was implemented by the California Transportation Commission (Commission) and the California Department of Transportation (Department) to provide flexible, short-term financing to public entities and public/private partnerships for the purpose of accelerating the delivery of transportation projects in California.

2. BACKGROUND

Authority

The National Highway System Designation Act of 1995 (Act) authorized the creation of a State Infrastructure Bank (SIB) pilot program to provide loans and other credit assistance to public and private entities to carry out highway construction and transit capital projects eligible for assistance under Section 350 of the Act. The U.S. Department of Transportation (USDOT) selected California, as one of ten states, to participate in the program.

The Department entered into an agreement with the Federal Highway Administration and the Federal Transit Administration, to establish the SIB, and \$3 million was appropriated by the USDOT for capitalization of the bank. The Business, Transportation & Housing Agency (BT&H) has since authorized the Department to develop a SIB revolving loan program utilizing these capitalization funds, and the Commission approved the guidelines for implementation of this program on April 3, 2002. These guidelines describe the policies and procedures for the approval and administration of TFB loans.

Funding Availability

While the USDOT authorized \$3 million for capitalization of California's SIB, Section 350(e)(1) of the Act also requires the State to provide a non-federal match. Therefore, the Federal contribution will be 88.53% and the State contribution will be 11.47% of the principal amount to be financed. As loans are repaid, funds will be recycled to support new loans, and the Bank's loan capacity will increase with deposits of new capital generated from interest earned on the loans.

Administration

Under the TFB Revolving Loan Program, the Department is responsible for accepting and evaluating applications, making loan recommendations to the Commission, and acting as the contact source for information on the program. The Commission approves the guidelines and loan application and agreement package, makes decisions regarding loan approval, and provides program oversight.

The Department may develop and maintain additional internal administrative procedures necessary to carry out the legislative intent of this program, and the Commission may revise the guidelines and loan documents, including the application, as deemed necessary.

3. ELIGIBILITY

Eligible Borrowers

Loans are available to local public entities and public/private partnerships. Any local transportation planning agency or county transportation commission (the Approving Authority for that county's submission to the State Transportation Improvement Program (STIP)) may apply for a loan. Additionally, recipients of fuel tax revenue monies are directly eligible for a TFB loan. Local entities that do not meet the above criteria and private entities interested in obtaining a loan under this program must apply jointly with the Approving Authority to the STIP for that county.

Eligible Projects

Highway construction projects must be eligible for assistance under Title 23, United States Code (USC) and transit capital projects must meet the requirements of Section 5302 of Title 49, USC. Additionally, revenues from certain motor vehicle fuel taxes that may be designated to meet the State's matching share requirement will be subject to the limitations imposed by Article XIX of the California State Constitution when loaned to project sponsors for the purpose of funding transit capital projects.

Additionally, projects must be included in a Federal State Transportation Improvement Program (FSTIP) and must comply with all other Federal requirements, including National Environmental Policy Act, Americans with Disabilities Act, and Davis-Bacon Act requirements, as appropriate.

Eligible Costs

Loans are available for any phase of an eligible project, but funding will be provided only for authorized expenditures incurred after the loan has been approved by the Commission. Borrowers will not be reimbursed for project costs incurred prior to loan approval. If it is determined that loan proceeds have been utilized for costs incurred prior to loan approval, immediate repayment of the total outstanding principal and interest will be required, and a 5% penalty will be assessed on that portion of the loan.

4. APPLICATION PROCESS AND REQUIREMENTS

Loan Application

An application for a loan should be submitted to the Department utilizing the *Transportation Finance Bank Revolving Loan Application and Agreement* form. An original and three copies of the application package, including all required information, should be mailed to the address in Section 7 of these guidelines.

Applications will be accepted by the Department at any time that loan funds are available. The program will be suspended whenever funding capacity has been reached, and will remain in suspension until sufficient funds again become available. Applications will not be processed during any suspension period and will be returned to the applicant without action. Applicants are encouraged to contact the Department's Innovative Finance Division in Sacramento to determine the availability of loans before submitting an application.

Financial Feasibility

Applicants must submit a financial plan that includes the estimated total project cost, a summary of the sources and uses of funds, the proposed source and timing of repayment of the principal and interest on the loan, a projected drawdown schedule, assumptions made in developing the plan, and a list of the persons and entities responsible for preparation of the plan. The applicant must also submit copies of its current budget, consolidated audited financial statements for the three most recent years, the most recent consolidated year-to-date interim financial statements, independent audit reports, and potential legal claims and/or liabilities pending that may impact the applicant's ability to repay a loan.

The financial plan must contain sufficient information to assess the credit quality of the applicant, and demonstrate that the applicant is capable of repaying the loan within the terms specified in the loan agreement.

Loan Terms

To allow the greatest flexibility for the borrower, loan terms will be established on a project-specific basis; however, the interest rate will be set on the date of Commission loan approval at 1% below the three-month Treasury Bill Average Auction rate. The loan amount must be a minimum of \$1 million and it must be fully repaid in cash. Repayment must begin no later than one year from the date of project completion and final payment must be received by the Department within six (6) years from the date of project completion. Repayment terms will be incorporated into the Loan Application and Agreement. It should be noted that there is no penalty for prepayment of principal and/or interest on the loan.

Loan Fees

A loan application fee, set at 1/2 of 1% of the total amount requested, is payable upon submittal of an application. This fee reimburses the State for expenses incurred by financial and legal staff and independent financial advisors in processing the application. If a loan is approved at an amount higher or lower

than the amount initially requested the difference would be refunded to the applicant if the fee is overpaid, or it will be built into the loan amount or paid separately at loan closing if the fee is underpaid.

Collateral Requirements

In order to ensure adequate security for a loan, the borrower must agree to provide collateral in the form of a pledge of future county share allocations or fuel tax revenues, as appropriate to the type of project. In the event of default on a loan, the county's next allocation of county share funding or fuel tax revenues subject to the limitations of Article XIX will be reduced in an amount equivalent to the full repayment of principal, interest and penalty charges. Interest will continue to accrue on any loan that is in default, up to the date the county share or fuel tax revenue reduction is actually made, and the principal, accrued interest and penalties are paid.

The governing body for the Approving Authority or for the fuel tax revenue recipient, as applicant or co-applicant, must voice its approval, by resolution or other instrument, of the loan for the purpose and terms stated in the Loan Application and Agreement. The governing body must show in the resolution, or other instrument, that it recognizes that future county share allocations or fuel tax revenues, as applicable, provide the sole source of loan collateral in the case of default on the loan. The governing body must also indicate in the document that, in the judgement of the Approving Authority or fuel tax revenue recipient, the financial plan completed for the project and included in the application is sound. A copy of the approving resolution, or other instrument, must be submitted with the application.

It is the intent of the Commission and the Department to work with the borrower to resolve problems with respect to late loan payments instead of declaring immediate default. However, the Commission and the Department have the responsibility of securing the TFB from improper use or fiscal irresponsibility and will exercise the right, as necessary, to enforce repayment of the loan as specified in the Loan Application and Agreement. The Department will notify the borrower in writing of its intention to declare default on a loan and to apply a penalty charge of 5% of the outstanding principal balance on the loan, effective on the fifth working day after the date of notification of default.

Other Requirements

In order to be eligible for a TFB loan, other requirements must be met. These include, but are not limited to, the following:

- The project must be included in a FSTIP;
- The borrower will be solely responsible for ensuring that the project is in compliance with all applicable federal, state, and local laws, rules, regulations, and/or policies. (Such applicable laws, rules, regulations and/or policies

include, but are not limited to Title 23, Title 49, National Environmental Policy Act, Americans with Disabilities Act, Davis-Bacon Act, 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, OMB A-87, Cost Principles for State and Local Governments, and all contract provisions governing the project); and

- The borrower must demonstrate that the project has a high probability of resulting in a completed facility.

In addition to the above requirements, the Department may request that the applicant provide supplemental information in support of detail included in the application package to fully evaluate the applicant's ability to meet the requirements of the program and the project's financial feasibility.

5. PROJECT SELECTION AND LOAN APPROVAL PROCESS

Application Ranking

Loans will be approved on a first-come, first-served basis, determined by the date and order received. In the event program capacity would be exceeded if an application were approved, the next application received by the Department will be given priority; however, the Department may first negotiate with an applicant for a reduced loan amount whenever an application exceeds available funds.

While the Department will evaluate each application in the order received, a project must meet the following minimum threshold criteria:

- the need for, or public benefit of, the project must be clearly identified;
- the project must be financially feasible and the applicant must demonstrate the ability to repay the loan; and
- the proposed project must meet all applicable Federal, State and local requirements.

Additionally, the TFB must have the funding capacity to participate in the project.

The Department will submit the loan application and agreement package and its recommendation for action, at the earliest possible Commission meeting, but no later than 90 days after the Department receives a completed application package. The meeting schedule can be found on the Commission's web site at the following address: <http://www.dot.ca.gov/hq/transprog/ctcliaison.htm>.

Upon assurance by the Department that all loan requirements have been met and that the borrower has the apparent resources and capability of repaying the loan, the Commission will take action on the loan application. The Commission may delegate authority to the Department to execute the loan agreement for approved loans.

Loan Disbursement

Loan proceeds will generally be disbursed on a reimbursement basis as project expenses are incurred, and will be based on (1) the cash flow needs of the project as defined by the borrower and approved by the Commission in the Loan Application and Agreement package, and (2) the borrower's submittal of a disbursement request accompanied by supporting documentation, such as actual invoices. Actual expenditures may be reimbursed on a lump-sum basis, for example, as may be necessary for a transit capital acquisition, or in accordance with a mutually-agreed upon drawdown schedule, as may be needed for phased highway construction projects. In the event that disbursements are made according to a drawdown schedule, the projected need for future disbursements will be re-evaluated annually by Department staff to ensure the most efficient use of TFB monies, prior to the actual disbursement of funds. The re-evaluation of the expenditure plan will be based on information provided by the borrower in accordance with annual reporting requirements. (See Section 6 of these guidelines for further detail regarding annual progress reports.)

While Department staff may approve an interim request for revision of the drawdown schedule, a minimum of 60 days' prior written notification, to allow for sufficient processing time, will generally be required.

The Commission and the Department reserve the right to disburse loan proceeds in advance of actual expenditures being incurred, for example, where it is demonstrated that it is more effective or efficient to the TFB, or the project being financed, to provide for lump sum disbursement. Authorization of this advance disbursement will be contingent upon the cash flow needs of the Department's TFB-related accounts. Borrowers of "advanced" loans must certify that there is no intent to create an arbitrage situation by investing loan proceeds at a higher yield than the interest rate payable on the loan.

6. REPORTING, ACCOUNTING, AND AUDITING REQUIREMENTS

Following the award of a loan, and until it is repaid in full, a borrower must submit annual progress reports to the Department's Innovative Finance Division staff and the Department Project Manager responsible for the project. These reports should include information regarding the status of the project, percentage of project completed, percentage of contract time lapsed vs. percentage funded to date, explanation of any delays in implementation and how the borrower will reach the completion goal, revised project schedules (if applicable), a list of expenditures at a level consistent with loan application detail, beginning and ending loan fund balances, interest earned to date on any loan proceeds advanced to the project, and the amount and percent of funds contributed to the project from other sources during that period.

In the event loan proceeds are advanced, these funds may not be commingled with the borrower's own funds and must be maintained in a separate account held by a FICA-insured financial institution.

Borrowers must maintain separate financial accounts for the project in accordance with generally accepted accounting principles. The borrower's accounting system and records must properly accumulate and segregate incurred project costs and matching funds by line item (i.e., sources and uses) for the project, must enable the determination of incurred costs at interim points of completion, and must provide support for loan amounts expended and project costs incurred. All accounting records and other supporting papers of the borrower related to the project shall be maintained for a minimum of three years from the date of final payment of the loan as specified under the standard provisions of the loan agreement, or three years from the date of project completion, whichever is longer. Such records shall be open to inspection and audit by representatives of the State of California and the United States (U.S.) Government, as a project expense chargeable to the loan. Copies, thereof, will be furnished by the borrower upon receipt of any request made by the State of California, the U.S. Government, or their agents.

A breach of the reporting, accounting, and/or auditing requirements specified in these guidelines could result in the department's notification to the borrower that immediate repayment of all loan proceeds and related interest is necessary, and a 5% penalty could be applied to the outstanding principal balance of the loan. In the event of non-compliance with repayment requirements, the borrower's loan collateral will be used to secure loan repayment and any penalty as specified above.

7. APPLICATION SUBMITTAL/PROGRAM INFORMATION

An original and three copies of the TFB Loan Application and Agreement, and all applicable attachments, should be mailed to:

California Department of Transportation
Innovative Finance Division
Transportation Finance Bank Revolving Loan Program
1120 N Street, MS-6
Sacramento, CA 95814
Attention: Finance Manager (Loan Programs)

Questions related to the TFB Program should be directed to the Finance Manager (Loan Programs) at the following numbers:

Phone: (916) 324-7624

FAX: (916) 324-7708

Draft
TRANSPORTATION FINANCE BANK
LOAN APPLICATION AND AGREEMENT PACKAGE

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TFB Loan Application and Agreement

**CALIFORNIA TRANSPORTATION COMMISSION
CALIFORNIA DEPARTMENT OF TRANSPORTATION**

**LOAN APPLICATION AND AGREEMENT
FOR THE
TRANSPORTATION FINANCE BANK (TFB)
REVOLVING LOAN PROGRAM**

SECTION I - APPLICANT INFORMATION

Applicant:

Mailing Address:

Street Address (or P.O. Box)

City

State

Zip Code

Authorized Representative:

Title:

Telephone Number:

Email Address:

Check the appropriate statement below:

- [] The applicant is the Approving Authority for the county's State Transportation Improvement Program (STIP) submittal or the applicant is the county's authorized recipient of fuel tax revenues.
- [] The applicant is filing jointly with the Approving Authority for the county's STIP submittal or the county's authorized recipient of fuel tax revenues. (Complete Section II for Approving Authority/fuel tax recipient.)

(Attach the Resolution/Agreement approved by the governing body of the Approving Authority or fuel tax revenue recipient and, if different, the Resolution/Agreement approved by the Applicant's governing body, that authorizes entering into a loan agreement with the State for the purposes and terms stated in this Loan Application and Agreement.)

SECTION II - CO-APPLICANT INFORMATION

Co-Applicant Name:

Mailing Address:

Street Address (or P.O. Box)

City

State

Zip Code

Authorized Representative:

Title:

Telephone Number:

Email Address:

The proposed project must:

- be included in a Federal State Transportation Improvement Program (FSTIP);
- be financially feasible; and
- comply with all Federal-aid eligibility requirements, including Title 23, Title 49, National Environmental Policy Act, Americans with Disabilities Act, and Davis-Bacon Act requirements.

Please refer to the Transportation Finance Bank Revolving Loan Program Guidelines for additional requirements for TFB loan eligibility.

Attachments:

See Page 8 for a checklist of attachments that must be included with this application.

Note:

Additional detail may be attached to the Loan Application and Agreement document as necessary to enable the California Transportation Commission (Commission) and the California Department of Transportation (Department) to fully evaluate the loan request.

FOR DEPARTMENT USE ONLY

Date and time received (STAMP):

Application Status:

Finance Manager (Loan Programs) Signature:

Date:

TFB Loan Application and Agreement

SECTION III - TFB LOAN REQUEST

Total Amount Requested: \$ _____ **Term of Loan:** _____ Years _____ Months
(Rounded to nearest thousand)

Project Type: ☐ Rail ☐ Mass Transportation ☐ Highway (on-system) ☐ Local Street or Road

☐ Other (Describe): _____

FSTIP Project ID Number: _____

Date FSTIP Adopted or Amended: _____

County Where Project is Located: _____

Most Recent Regional Share Funding Allocation /Fuel Tax Revenue: \$ _____

Project Title: _____

Project Location: _____

Type of Work: _____

Project Description: _____

Describe the Project Benefit/Public Need (i.e., congestion reduction, access, traffic flow, air quality, economic, safety, etc.): _____

Project Phase(s) for which Funding is Requested: ☐ Major Investment Study ☐ Engineering/Design
☐ Environmental/Clearance ☐ Right of Way Acquisition ☐ Plans, Specifications, and Estimates
☐ Construction ☐ Other (Describe): _____

Current Project Status: Check all that apply and give percentage completed and estimated date of completion.

<input type="checkbox"/> Major Investment Study	_____ %	Date: _____
<input type="checkbox"/> Engineering / Design	_____ %	Date: _____
<input type="checkbox"/> Environmental Clearance	_____ %	Date: _____
<input type="checkbox"/> Right of Way Acquisition	_____ %	Date: _____
<input type="checkbox"/> Plans, Specifications and Estimates	_____ %	Date: _____
<input type="checkbox"/> Construction	_____ %	Date: _____
<input type="checkbox"/> Other	_____ %	Date: _____
Describe "Other": _____		

TFB Loan Application and Agreement

SECTION III - TFB LOAN REQUEST, CONTINUED

Responsible Parties: Identify the party or parties that are charged with the planning, development, financing, start-up, construction, and ongoing operations and maintenance of the project, and the party or parties that will exercise ownership control in all stages of the project. (Attach additional sheets as necessary.)

SECTION IV - FINANCIAL INFORMATION

The financial plan for the project may be presented in the applicant's own format; however, it must contain the following minimum information:

- **Provide an estimate of total project costs:** (Estimated project costs should be provided at a sufficient level of detail to enable the State to validate reasonableness of the costs, i.e., site work, structures, engineering fees, developer fees, costs of financing, etc.)
- **Summary of the sources and uses of funds:** (For sources of funds, specify any enforceable financing commitments and the current status of all other funding. For uses of funds, identify the phase of the project, i.e., design/engineering, construction, etc.)
- **Source and Timing of Repayment:** (Describe in detail the revenue stream to repay the principal and interest on the loan. The loan must be repaid in cash and may include but are not limited to local sales taxes, fuel taxes, measure money, motor vehicle fees, and developer fees.)
- **Drawdown schedule:** (Provide a schedule for projected disbursement of loan proceeds based on the estimated cash flow needs of the project.)
- **Assumptions/Plan Preparation:** (Provide detail relative to the assumptions made in developing the financing plan for the project, including the estimated rate of interest and the name(s) of the person(s) to be contacted with respect to the plan.)

In addition to the above detail, the applicant must also submit copies of the current budget, consolidated audited financial statements for the three most recent years, the most recent consolidated year-to-date interim financial statements, independent audit reports, and potential legal claims and/or liabilities pending that may impact the applicant's ability to repay a loan.

Applicant's Proposed Repayment Schedule:

The TFB offers flexible terms for the repayment of the loan, within the following parameters: Repayment must begin no later than one year from the date of project completion, and final payment must be received by the Department within six years from the date of project completion.

Specify the requested loan term below:

Amount of Loan: \$ _____ Term: _____ Years _____ Months

Define the proposed payment structure below (i.e., equal payments of principal and interest bi-annually, or quarterly interest payments with lump sum principal at the end of the period, etc.) and attach a proposed repayment schedule:

Will Electronic Funds Transfer be used for repayment? [] Yes [] No

TFB Loan Application and Agreement

SECTION V – APPLICANT SIGNATURE

The authorized person for the Applicant must read, agree and sign the statements below in order for this to be considered an official application.

As the Applicant, or as an authorized representative of the Applicant, I hereby submit this Loan Application and certify and warrant that the information and financial data contained herein are true and correct to the best of my knowledge. I understand that additional information may be requested and I authorize the California Department of Transportation to independently verify any information contained in this Loan Application. I also understand that the acceptance and consideration of this Loan Application does not constitute a commitment of funds by the Commission. Attached to this application is:

Check applicable box(es):

☐ the Approving Resolution approved by the governing body of the Approving Authority or fuel tax revenue recipient.

☐ the Approving Resolution approved by the Applicant's governing body.

The attached resolution(s) authorize(s) this application for the stated purposes and proposed terms, and authorize(s) the undersigned to perform all acts in accordance with the Loan Application and Agreement.

Authorized Applicant Signature: _____

Date: _____

Print Name: _____

Title: _____

Date: _____

SECTION VI – BORROWER’S CERTIFICATION AND AUTHORIZATION

Borrower’s Certification and Authorization

Certification

_____ (Borrower) is applying for a loan in the amount of \$ _____
[Applicant’s (local agency’s) name]

to be approved by the California Transportation Commission (Lender) from unallocated funds under the Transportation Finance Bank (TFB) Revolving Loan Program.

I, _____, as the Authorized Representative of Borrower, certify to the following:

1. The project is included in a Federal Transportation Improvement Program; and
2. The project complies with all Federal-aid eligibility requirements, including Title 23, Title 49, the National Environmental Policy Act, Americans with Disabilities Act, and Davis-Bacon Act requirements.

Authorization

Borrower, who is the Project Administering Agency/Authority, possesses the legal authority to enter into this Loan Application and Agreement and construct the proposed project; and by official action (e.g., the attached resolution) the Approving Authority’s governing body authorizes the activity, including all understandings and assurances contained therein. The undersigned Authorized Representative is empowered to execute, and to act in connection with, this Loan Application and Agreement, and to provide such additional information as may be required.

Project Administering Agency/Authority/Borrower will give the California Department of Transportation’s representatives access to, and the right to, audit, examine and copy all records, books, papers, or documents related to the project. All accounting records and other supporting papers of the Borrower related to the project shall be maintained for a minimum of three years from the date of final payment of the loan under the standard provisions of this agreement, or three years from the date of project completion, whichever is longer. Such records shall also be held open to inspection and audit by representatives of the State of California and the Federal Government, as a project expense chargeable to the loan. Copies, thereof, will be furnished by Borrower upon receipt of any request made by the State, the Federal government, or their agents.

Project Administering Agency/Authority/Borrower will comply with the provisions of all applicable federal, state, and/or local laws, rules and/or regulations, including the requirements included in the Transportation Finance Bank Revolving Loan Program Guidelines and this Loan Application and Agreement. Additionally, the Project Administering Agency/Authority/Borrower will comply with all contract provisions governing the project.

I, _____, as authorized representative of Borrower, warranty and certify that the information contained in this Borrower’s Certification and Authorization, including all required or supplemental attachments, is accurate and that the information provided is correct, and that I am empowered to agree to the assurances and warranties contained herein.

Authorized Representative:

Signed: _____

Date: _____

Printed (Name and Title): _____

TFB Loan Application and Agreement

SECTION VII - LOAN TERMS AND AGREEMENT

Borrower understands and agrees to the following:

(1) Obligation:

The principal amount under this loan agreement is the loan amount approved by the Commission and agreed to by the Borrower, in an amount not greater than the amount requested in Sections III and IV but not less than \$1 million, and increased as necessary by audit costs incurred by the Commission.

(2) Interest Rate and Loan Application Fee:

The interest rate will be set on the date of loan approval by the Commission at 1% below the three-month Treasury Bill Average Auction Rate. The interest charges on the loan begin to accrue on the date of initial loan disbursement, are compounded quarterly, and applied against the outstanding amount owed, including accrued interest. A loan application fee, set at 1/2 of 1% of the total amount requested, is payable upon submittal of an application. If a loan amount is approved at an amount higher or lower than the amount requested, the difference will be refunded to the applicant if the fee is overpaid, or it will be built into the loan amount or paid separately at loan closing if the fee is underpaid.

(3) Term (Length) of Loan:

Repayment of all principal and interest must begin no later than one year from the date of project completion and final payment must be received by the Department within six years from the date of project completion. The final repayment date shall be in substantial agreement with the term requested by the applicant in Section IV.

(4) Dedicated Revenue Stream(s) and Repayment Schedule:

Revenue stream(s) dedicated to repayment of the loan and the repayment schedule are as stated in Section IV. All payments of principal plus interest or penalties shall be deposited under the Transportation Finance Bank Revolving Loan Program to the State Highway Account or the Public Transportation Account, as applicable. The Department of Transportation shall notify the Borrower at least 25 days in advance of the date a payment is due with the amount of principal and/or interest that is due and payable.

(5) Prepayment:

Partial or full prepayment of the outstanding loan and/or interest may be made in advance of the repayment schedule stated in Section IV without penalty.

(6) Cause to Rescind:

Should the Borrower fail to comply with all applicable federal, state, and/or local laws, rules and/or regulations, including the requirements of the Transportation Finance Bank Revolving Loan Program Guidelines and this Loan Application and Agreement, the Department of Transportation shall rescind the loan, and require the loan, with interest, plus a 5% penalty charge applied to the outstanding loan balance be repaid to the State Highway Account, the Public Transportation Account, or other account, as applicable, within ten (10) days after notification is made to the Borrower.

(7) Loan Default:

In the event of default on this loan, 100 percent repayment of the principal and interest, plus a penalty charge of 5 percent of the outstanding principal, shall be required in the form of a reduction in the county's next allocation of county share funding or fuel tax revenues. The penalty charge will be applied on the fifth working day after the date of written notification of the default. Interest shall continue to accrue until such time as the county share reduction is made or sufficient fuel tax revenues have been secured. If that reduction is not sufficient to pay the principal, interest, and penalty due, further reduction shall be made from subsequent allocations until the outstanding amount is paid in full. Additionally, the defaulting county shall be ineligible for regional share fund programming made under Section 188.8 of the Streets and Highways Code until the outstanding amount is paid in full.

ACCEPTANCE OF LOAN TERMS:

_____ accepts the principal amount of the loan for \$ _____
(Borrower)
with the terms stated herein.

_____ Dated _____
Authorized Signature

This Collateral Loan status is concurred with by the County of _____ as the Approving Authority.

Approving Resolution Number: _____

_____ Dated _____
(Authorized Signature)

TFB Loan Application and Agreement

FOR DEPARTMENT USE ONLY

CALIFORNIA DEPARTMENT OF TRANSPORTATION RECOMMENDATION

This application is recommended for approval subject to the following conditions:

☐ Augment ☐ Reduce the Requested Loan Amount by \$ _____ (if applicable)

Approve Loan in the Amount of \$ _____ , with a term of _____

Reason for Change in Requested Loan Amount/Other Conditions of Loan: _____

Signature of Finance Manager (Loan Programs)

Date

Typed or Printed Name: _____

CALIFORNIA TRANSPORTATION COMMISSION ACTION

The California Transportation Commission:

☐ approves this loan request in the amount of \$ _____, for a term of _____

under Resolution Number: _____ Dated: _____ .

or

☐ rejects this loan request for the following reason(s): _____

TFB Loan Application and Agreement

APPLICATION SUBMITTAL/PROGRAM CONTACT

An original and three copies of the TFB Loan Application and Agreement, and all applicable attachments, should be mailed to:

California Department of Transportation
Innovative Finance Division
Transportation Finance Bank Revolving Loan Program
1120 N Street, MS-6
Sacramento, CA 95814
Attention: Finance Manager (Loan Programs)

Questions related to the TFB Program can be directed to the Finance Manager (Loan Programs) at the following numbers:

Phone: (916) 324-7624
FAX: (916) 324-7708

ATTACHMENTS CHECKLIST

- [] Approving Resolution of the Applicant agency's governing body that authorizes entering into a loan agreement with the State for the purposes and terms stated in the application, and names an Authorized Representative to perform all acts necessary to the Loan Application and Agreement.
 - [] If different than the Applicant, the Approving Resolution of the governing body for the agency that is either the Approving Authority for the county's STIP submittal, or the recipient of fuel tax revenues, that authorizes the joint filing of the application and acknowledges the obligation of future county share allocations or fuel tax revenues, as appropriate, in the case of default on the loan. The resolution may also name an Authorized Representative to perform all acts necessary to the Loan Application and Agreement.
 - [] Project site map.
 - [] Right of way certification, if applicable.
 - [] Major milestone detail. (Include the current project schedule reflected in the adopted Regional Transportation Plan, and the accelerated schedule if the loan is approved.)
 - [] A financial plan that demonstrates full funding of all phases of the project (per Section IV of the TFB Revolving Loan Program Guidelines). At a minimum, the plan and supporting documentation must contain the following:
 - [] Estimate of Total Project Costs;
 - [] Summary of Sources and Uses of Funds;
 - [] Source and Timing of Repayment (Schedule);
 - [] Drawdown Schedule, if applicable;
 - [] Assumptions/Plan Preparation;
 - [] Current Budget;
 - [] Consolidated Audited Financial Statements for the Three Most Recent Years;
 - [] Most Recent Consolidated Year-To-Date Interim Financial Statements;
 - [] Independent Audit Reports; and
 - [] Potential Legal Claims and/or Liabilities Pending that may impact the Applicant's repayment ability.
-

CALIFORNIA RURAL COUNTIES TASK FORCE

CELIA McADAM, CHAIR
PLACER COUNTY TRANS. PLANNING AGENCY
(530) 823-4030

DARIN GROSSI, VICE CHAIR
TUOLUMNE CO/CITIES AREA PLAN. COUNCIL
(209) 533-5601

PAM COUCH, SECRETARY
MODOC COUNTY TRANSPORTATION COMMISSION
(530) 233-6422

To: Rural Counties Task Force Participants
From: Celia McAdam, Chair
SUBJECT: California Transportation Plan

Issue

Caltrans continues to move forward on the California Transportation Plan. They have now developed a Rural Issues section.

Discussion

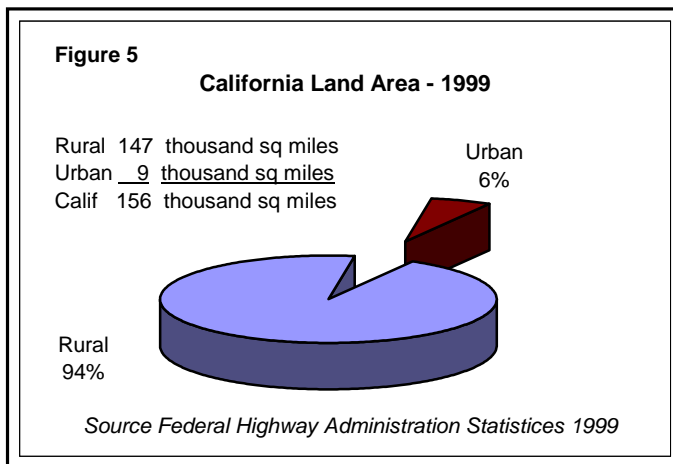
The Rural Issues section was provided to me as Chair of the RCTF for comments. Because of the short time frames which the California Transportation Plan staff is working on, I responded quickly. However, because of the extent of the issues with the tone and content of the section, I suggested extensive new language for Caltrans' consideration.

Attached please find both the original version of the Rural Issues section, and the revised, for consideration.

Rural Issues

Rural issues are sometimes over-shadowed by urban needs. Only eight percent of California's population lives in rural areas, which comprises 94 percent of the land area. Providing transportation services to a sparsely and widely distributed population presents special transportation challenges that must be considered when planning for a balanced, interconnected system.

Rural transportation issues vary depending on the area's economic base, topography or proximity to urban areas and popular destinations. If located between urban areas and tourist destinations, such as Yosemite National Park or coastal beaches, the rural area

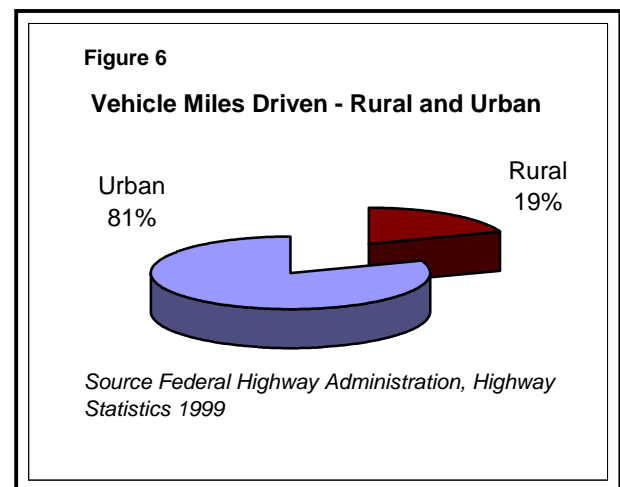


might experience substantial through traffic. If located adjacent to an urban area, the rural jurisdiction might receive a "spill over" of big city problems, such as traffic and air pollution, but not receive sufficient resources needed to address those issues.

Safety is a significant concern in rural areas. Nationally, 80 percent of the nation's roadway miles are in rural areas; over 58 percent of

the total fatalities occur in rural areas and the fatality rate for rural areas is more than twice that of urban areas (per 100 million vehicle miles of travel). The higher fatalities rate could be attributed to several factors including rugged terrain, unforgiving roadways, faster speeds, alcohol, longer response time to the accident, and distance to medical treatment centers.

California's transportation system and users take a beating from weather. Travelers are often stranded in rural communities because of road closures. Flooding and landslides can destroy transportation networks and jeopardize rural communities. According to the Federal Highway Administration approximately 7,000 are killed and 450,000 are injured each year due to weather related events.



California's economy relies on the efficient movement of interregional commercial trucking. However, rural areas might experience substantial goods movement traffic

flowing through the area, and considerable associated air quality effects, but receive inadequate resources to address the impacts of that traffic.

For some rural residents, transit service is the only means of transportation to the outside world. Rural entities are often challenged to provide transit and paratransit services to rural customers sparsely distributed over considerable distances. Regional and intercity bus service can be difficult to provide due to low demand, fare box return requirements and limited resources for operating and maintaining the system. Lack of regional and intercity transportation alternatives reduce the level of independence and opportunities available to rural residents who cannot or choose not to drive.

Rural area airports provide vital access for medical emergencies, and fire fighting and agricultural operations. These airports also provide links to larger urban airports for passenger and air cargo service. Many rural airport runways need to be extended to accommodate larger aircraft.

Rural areas do not have the communication infrastructure that urban areas have. Lack of wireless communication directly impacts safety and increases information and advanced transportation systems infrastructure deployment costs.

Transportation plays a crucial role in the sustainable development of rural areas and communities. Whether it's the building and planning of pedestrian-oriented main streets in small towns to stimulate economic development, or the improvement of transportation infrastructure to enhance the movement of goods or access to jobs, transportation literally binds a community together. While many of the strategies discussed in the previous section are applicable to rural needs, the following strategies address specific rural issues.

COATS Project

The California-Oregon Advanced Transportation Systems Project is a bi-state, multi-jurisdictional partnership designed to utilize advanced transportation technologies to improve safety and mobility in northern California and southern Oregon.

Strategies:

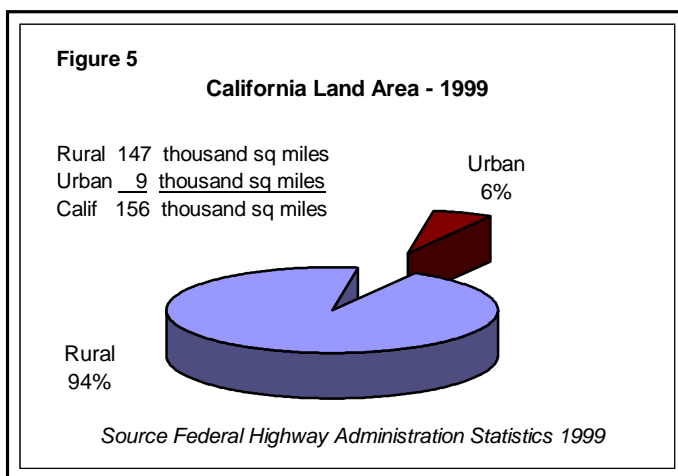
- Ensure rural areas have adequate funds to provide for the operation, maintenance and rehabilitation of the rural and interregional transportation system.
 - Provide for roadway safety improvements and efficiencies.
 - Funding must be flexible to provide for fund matching opportunities with other programs.
 - Consider interregional traffic, including goods movement and tourism, and weather impacts when allocating resources to rural entities.
 - Ensure critical transportation facilities, such as general aviation, are adequately funded to provide lifeline services.
 - Upgrade communication to enable deployment of advanced transportation systems to improve safety, incidents response and traveler information, including emergency response entities in the early planning stages.

- Advocate coordinated public transportation services with social service agencies to optimize resources and services.
 - Initiate effort with full participation of federal, state, regional and local governments to explore funding options and opportunities and to address potential barriers.
 - Identify best practices including advanced public transportation technologies to improve and coordinate services.
- Consider the “main street” characteristics of transportation corridors and incorporate community values and context sensitive solutions.
- Explore alternatives to moving goods through rural areas to mitigate impacts on infrastructure and air quality.

Rural Issues

Rural issues, while every bit as acute as those in urban areas, have very different characteristics. are sometimes over-shadowed by urban needs. With Only eight percent of California's population, -lives-in rural areas, which comprises 94 percent of the land area. Providing transportation services to a sparsely and widely distributed population presents special transportation challenges that must be considered when planning for a balanced, interconnected system.

Rural transportation issues may vary depending on the area's economic base, topography or proximity to urban areas and popular destinations. There are, however, many areas of common need. If located between urban areas and tourist destinations, such as Yosemite



National Park or coastal beaches, the rural area might experience substantial through traffic. If located adjacent to an urban area, the rural jurisdiction might receive a "spill over" of big city problems, such as traffic and air pollution, but not receive sufficient resources needed to address those issues.

Integrity of the existing road system is a significant concern in rural areas. With approximately

80 percent of the road miles located in rural areas, the proportion of road miles to population creates a far larger responsibility, usually without the economic means to address it. Road condition problems are exacerbated by weather issues, particularly where flooding, landslides, and/or snow removal can quickly jeopardize pavement integrity.

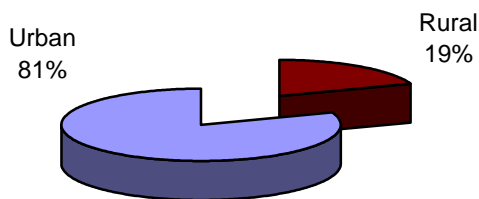
California's economy relies on the efficient movement of interregional commercial trucking. However, rural areas might experience substantial goods movement traffic flowing through the area, and considerable associated air quality effects, but receive inadequate resources to address the impacts of that traffic.

California's rural areas are some of the largest agricultural producers in the nation. This makes truck access of particular importance in bringing food and timber to the world. These large trucks take a substantial toll on the local road systems that feed into the state highways, not only in traffic volumes, but in impacts to pavement conditions.

Safety is ~~a another~~ significant concern in rural areas. Nationally, ~~80 percent of the nation's roadway miles are in rural areas;~~ over 58 percent of the total fatalities occur in rural areas and the fatality rate for rural areas is more than twice that of urban areas (per 100 million vehicle miles of travel). The higher fatalities rate could be attributed to several factors including rugged terrain, ~~shortened sightlines,~~ unforgiving roadways, faster speeds, alcohol, longer response time to the accident, and distance to medical

Figure 6

Vehicle Miles Driven - Rural and Urban



Source Federal Highway Administration, Highway Statistics 1999

COATS Project

The California-Oregon Advanced Transportation Systems Project is a bi-state, multi-jurisdictional partnership designed to utilize advanced transportation technologies to improve safety and mobility in northern California and southern Oregon.

treatment centers.

~~California's transportation system and users take a beating from weather. Travelers are often stranded in rural communities because of road closures. Flooding and landslides can destroy transportation networks and jeopardize rural communities. According to the Federal Highway Administration approximately 7,000 are killed and 450,000 are injured each year due to weather related events.~~

~~California's economy relies on the efficient movement of interregional commercial trucking. However, rural areas might experience substantial goods movement traffic flowing through the area, and considerable associated air quality effects, but receive inadequate resources to address the impacts of that traffic.~~

For some rural residents, transit service is the only means of transportation to the outside world. Rural entities are often challenged to provide transit and paratransit services to rural customers sparsely distributed over considerable distances. Regional and intercity bus service can be difficult to provide due to low demand, fare box return requirements and limited resources for operating and maintaining the system. Lack of regional and intercity transportation alternatives reduce the level of independence and opportunities available to rural residents who cannot or choose not to drive.

Rural area airports provide vital access for medical emergencies, and fire fighting and agricultural operations. These airports also provide links to larger urban airports for passenger and air cargo service. Many rural airport runways need to be extended to accommodate larger aircraft.

Rural areas do not have the communication infrastructure that urban areas have. Lack of wireless communication directly impacts safety and increases information and advanced transportation systems infrastructure deployment costs.

Transportation plays a crucial role in the sustainable development of rural areas and communities. ~~Whether it's the building and planning of pedestrian-oriented main streets in small towns to stimulate economic development, or~~ As the pedestrian-oriented main streets in the historical rural downtowns of California have served as examples for urban growth, these should continue to be emulated in rural growth, and as a basis for improving the ~~the improvement of~~ transportation infrastructure to enhance the movement of goods or access to jobs, ~~transportation literally binds a community together.~~ While many of the strategies discussed in the previous section are applicable to rural needs, the following strategies address specific rural issues.

Strategies:

- Ensure rural areas have adequate funds to provide for the operation, maintenance and rehabilitation of the rural and interregional transportation system.
 - Provide for roadway safety improvements and efficiencies.
 - Funding must be flexible to provide for fund matching opportunities with other programs.
 - Consider interregional traffic, including goods movement and tourism, and weather impacts when allocating resources to rural entities.
 - Ensure critical transportation facilities, such as general aviation, are adequately funded to provide lifeline services.
 - Upgrade communication to enable deployment of advanced transportation systems to improve safety, incidents response and traveler information, including emergency response entities in the early planning stages.
- Advocate coordinated public transportation services with social service agencies to optimize resources and services.
 - Initiate effort with full participation of federal, state, regional and local governments to explore funding options and opportunities and to address potential barriers.
 - Identify best practices including advanced public transportation technologies to improve and coordinate services.
- Consider the “main street” characteristics of transportation corridors and incorporate community values and context sensitive solutions.
- Explore alternatives to moving goods through rural areas to mitigate impacts on infrastructure and air quality.

CALIFORNIA RURAL COUNTIES TASK FORCE

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To: Rural Counties Task Force Participants
From: Celia McAdam, Chair
SUBJECT: Rural Counties Task Force Web Board Demonstration

Issue

The CTC has developed a web board available for RCTF members to share information, observations, and other timely data on an ongoing basis. Activity as yet has been on the slow side, likely due to members lack of familiarity with its use.

Discussion

Kathie Jacobs of the CTC staff will provide a demonstration of the web board and its operations at our RCTF meeting, and answer questions.

RCTF ISSUES AND OBJECTIVES
Report for March 15, 2002

Issue/Objective

SB 45 Implementation Changes Interregional Transportation Strategic Plan (ITSP) Rural Transit (FTA 5310, Welfare to Work, CalACT)	Darin Grossi, Tuolumne
Formulas for Distribution of Local Road Funds SB 45 Project Monitoring/Reporting Database	Walt Allen, Monterey
RSTP/CMAQ/TEA Project Delivery Committee	Dan Landon, Nevada
Local Road Rehab Funding & STIP Protection Intelligent Transportation Systems (ITS) Applicability to Rural Counties TEA Advisory Committee	Phil Dow, Lake & Mendocino
Formulas for Distribution of Local Road Funds California Transportation Investment Strategy (CTIS) ITS Applicability to Rural Counties	George Dondero, Calaveras
City/County/Caltrans/FHWA Coordinating Group and Local Assistance "Enhanced Training Committee"	Spencer Clifton, Humboldt
State Planning Guidelines Development Quality Team Clarify/Improve OWP Process Interregional Strategic Transportation Plan (ITSP)	Charles Field, Amador
Local Road Rehab Funding & STIP Protection Federal Aid Project Streamlining Civil Rights Review Title 9 TEA-3 Federal Reauthorization	Celia McAdam, Placer